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Kansainvälinen liiketoiminta



INFORMAL CONTROL

A case study of an international joint venture of Outokumpu Base Metals Oy

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TIIVISTELMÄ

Tutkimuksessa tarkastellaan epäformaalia kontrollia kansainvälisessä yhteisyrityksessä. Kontrollin käsitetään sisältävän kolme ulottuvuutta: mekanismit, fokus ja laajuus. Lisäksi jokaisen niistä käsitetään koostuvan formaalista ja epäformaalista komponentista. Työn tarpeellisuus perustuu havaittuun vähäiseen akateemiseen tietoon aiheesta sekä kansainvälisen liiketoiminnan johtamisessa identifioitulle tarpeelle saada pragmaattista tietoa aihepiiristä.

Tutkimuskysymykset kohdentuvat aiheisiin, joita aikaisemmassa kirjallisuudessa on suositeltu uuden tutkimuksen kohdealueiksi. Vaikka kontrolli kansainvälisessä yhteisyrityksessä onkin ollut viime vuosina intensiivisen tutkimuksen kohteena, vain harvoja empiirisiä tutkimuksia on suoritettu jotka keskittyvät epäformaaliin kontrolliin, silti sen tärkeys on huomioitu suurimmassa osasta tutkimusraporteista.

Tässä tutkimuksessa käytetään kahta eri tutkimusotetta. Ensiksi lähetettiin postikysely 63 Outokummun kansainvälisesti kokeneelle johtajalle, jotta voitaisiin tutkia epäformaalien kontrollimekanismien tehokkuutta. Toiseksi tutkimusotteeksi valittiin case-tutkimus jolla pyritään kuvaamaan kuinka yritykset harjoittavat epäformaalia kontrollia. Case-yritys on Chilessä toimiva 50-50 kansainvälinen yhteisyritys suomalaisen Outokumpu Base Metals Oy:n ja Kanadalaisen Placer Dome, Inc.:in välillä. Case-tutkimuksen ensisijainen tietolähde on kahdeksan henkilökohtaista haastattelua henkilöiden kanssa jotka edustavat case yrityksen korkeinta-, keski- ja alemmaa johtoa.

Tutkimuslöydökset vahvistavat, että epäformaalit kontrollimekanismit ovat tehokkaita ja eräät toiminnot yrityksissä ovat suuremmassa määrin epäformaalisti vaikutettavissa olevia kuin toiset. Tehokkaimmat epäformaalit kontrollimekanismit ovat yhteisyrityksessä avainasemissa työskentelevät osakkaan edustajat sekä yrityskulttuurin luominen. Lisäksi epäformaalin kontrollin edellytyksiä ovat läheinen ohjaussuhde yhteisyritykseen ja sille kriittisten osakkaan resurssien maantieteellinen läheisyys. Yhteisyritys voi puolestaan vähentää osakkaiden harjoittaman epäformaalin kontrollin vaikutusta luomalla oman identiteetin.

Avainsanat: kansainväliset yhteisyritykset, kontrolli- ja koordinaatiomekanismit, epäformaali kontrolli, perusmetallit, Outokumpu, Placer Dome, Compañía Minera Zaldívar

ABSTRACT

The study examines informal control in an international joint venture. More specifically, control is considered as being composed of three dimensions: the mechanisms, focus, and extent. Furthermore, each of them are considered to be composed of formal and informal components. The study's justification lies in observed small amount of academic knowledge and in identified need of pragmatic information of the issues in international business management.

The research questions address the issues that previous literature has suggested for future research. Even though in recent years control in international joint ventures has been an area of intensive research, few empirical studies concentrating on informal control have been carried out. However, its importance is noted in majority of papers.

Two research strategies were used in the study. First, a mail survey was sent to 63 internationally experienced managers of Outokumpu Group in order to examine the effectiveness of informal control mechanisms. Second, a case study strategy was chosen to describe how companies exert informal control. The case company is a Chilean 50-50 international joint venture between Outokumpu Base Metals Oy from Finland and Placer Dome, Inc. from Canada. Primary source of data for the case study are 8 personal interviews conducted with case company's top management, middle management and lower management.

Study's findings confirm that informal control mechanisms are effective and that some functions can be informally influenced to a greater extent than others. The most effective informal control mechanisms are partner's representatives working in key positions in the joint venture and creation of a corporate culture. Furthermore, a close steering relationship to the joint venture and geographical proximity of partner's critical resources to the joint venture are prerequisites for informal control. Joint venture, on the other hand, can reduce the effect of informal control exerted by partners by establishing own identity.

Keywords: international joint ventures, control and coordination mechanisms, informal control, base metals, Outokumpu, Placer Dome, Compañía Minera Zaldívar

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INFORMAL CONTROL

A CASE STUDY OF AN INTERNATIONAL JOINT VENTURE OF OUTOKUMPU BASE METALS OY

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1. INTRODUCTION

1.1 Background to the Study

Recently, there has been a great deal of academic and managerial interest in international joint ventures. Many studies report that the number of international joint ventures has risen rapidly during the last years. However, at the same time the success rate of international joint ventures seems to be rather low. For example, Geringer and Hebert (1991:250) report that in a number of different studies estimates for unsatisfactory international joint venture performance have varied from 37% to over 70%. Giving support to this, Yan (1993:4) reported that according to previous studies the failure or instability rate of international joint ventures has ranged from 25% to 70%. Extant literature suggests numerous reasons for the observed high failure-rate. Amongst the most usual ones are shifts in the partners' bargaining power, changes in partners' strategies, competitive rivalry between the partners, disagreements in profit reinvestment decisions, sensitive information disclosure issues, disagreements about joint venture's strategy, control, marketing policies and strategies, research and development and personnel and external factors such as changes in foreign investment policies (Inkpen and Beamish 1997: 179, Czinkota et al. 1994:380).

Very often one of the most problematic areas in joint venture management is control. For a partner the tradeoff of reduced risk is reduced control of the operations. Many times companies fear that they lose disproportionately more control than they gain benefits from the relationship. Practice has proven that this indeed can happen. Therefore, assuming a win-win situation, companies will want to ensure that they gain at least in the same proportion as their partners.

Basically, there are two generic situations where informal control potentially has very important role. Firstly, when a separate joint venture is formed between two companies as a result of strategic choice. Secondly, in mergers and acquisitions

when either a new entity is formed from previous ones or acquired target is added to the existing acquirer company.

Before going to the identification of the research gap, the next two sections review the situation as regards the use of joint ventures in the global and the Finnish level.

1.1.1 Joint Ventures in the World

The number of joint ventures has risen rapidly in global markets in recent years. For example, the number of US alliances formed has risen in an increasing rate from the late 1980s onwards. Whereas 5.100 US alliances were created from 1980 to 1987, between 1988 and 1992 over 20.000 US alliances were formed (Pekar Jr. and Allio 1994: 54).

However, as described earlier, joint ventures have been reported to be more instable a form of organization than a wholly owned subsidiary. It is perhaps due to this high instability why many companies have traditionally considered joint ventures as a second best alternative to a wholly-owned subsidiary. According to many companies shared ownership should only be used when other modes of operation are not feasible. For example, companies can have a policy that generally prohibits other ownership arrangements than a wholly-owned subsidiary and allows lesser degrees of ownership only when the host country's legislation restricts the degree of foreign ownership to certain amount. Other reasons for less than whole ownership can be lack of financial resources or too high risk associated with the investment if implemented as a sole venture and thus the need to share risk. Hence, there is usually a tradeoff between the level of control and the level of financial resources needed and traditionally companies have considered control more important.

Interestingly however, there is an increasing number of large multinational companies who have started to form joint ventures in spite of the fact that they

have enough financial muscle to operate by themselves. This is the case even with some companies that before had a strict policy of only establish wholly-owned units (Yan 1993:12). A case in point is IBM. Traditionally the corporation has refused to build operations with local ownership (Czinkota et al. 1994: 375) but recently this attitude has been changing and the company indeed now has started to form joint ventures and alliances. For example, in 1991 IBM and Apple formed two long-term strategic alliances (Pekar Jr. and Allio 1994: 58). This suggests that it is not necessarily only the lack of financial resources (and hence the need to split risk) that drives direct competitors to join their forces but there are other considerations as well. Thus, it seems that horizontal joint ventures can provide companies with benefits that offset the reduced control.

1.1.2 Degree of Ownership of Finnish Companies' Foreign Units

Finnish companies' ownership policy does not markedly differ from that in the global level. Also in Finland the general ownership policy has been preferring majority and wholly-owned subsidiaries to minority ownership. For example, Luostarinen's (1996: 120) study of Finnish companies' foreign manufacturing subsidiaries in 1991 reported that over 83 per cent of subsidiaries were either majority or wholly-owned as depicted in Table 1. It is reasonable to assume that the figure would be even higher if also marketing and sales subsidiaries were taken into account because marketing and sales units are seldom joint ventures (Huhtaniitty and Weckman 1996: 127).

Table 1: Finnish Companies' Manufacturing Units by Ownership Categories in Whole World in 1991

Ownership Category	N	%
100%	440	70
51-99%	85	13
50-50	23	4
10-49%	81	13
TOTAL	629	100

Source: Luostarinen 1996: 120

Luostarinen argues that one possible explanation for this pattern could be that Finnish companies are lacking other means than the majority ownership for effective control. Supporting this, Mr. Jukka Järvinen from OBM argues that it is a widely shared belief that Finns in general tend to be poorer than their foreign counterparts at exerting informal control. Nevertheless, there is some evidence that the share of joint ventures in Finnish manufacturing subsidiaries is slightly rising as the time goes on (Luostarinen 1996: 120).

Finnish companies' degree of ownership of foreign units varies markedly in different geographical areas. As can be seen in Table 2, the pattern of ownership in 'traditional developed world', that is European Union, Western Europe and North America, is clearly more majority or wholly-owned oriented than it is in other regions of the world. An interesting observation is that in Central and Eastern Europe minority ownership is the most usual mode of subsidiary operation. Hussi and Puolakka (1995: 120) argue that this difference is due to the more stabilized business environment in developed economies and due to the fact that companies already possess more information of Western economies. Nevertheless, in the Central and Eastern Europe companies seem to gradually increase their degrees of ownership towards majority and wholly-owned units, especially from the beginning of the 1990s onwards due to the liberalization of the markets (Hussi and Puolakka 1995: 146).

Ownership pattern in Latin America is very similar to that in Asia-Pacific region. One should note, however, that percentages in Table 2 refer to production, sales and marketing units. Thus the percentage of wholly owned units is higher than it would be if only manufacturing units were considered as described earlier (Huhtaniitty and Weckman 1996: 127). In another study of ownership degree Mäkelä and Larimo (1996: 120) found that minority joint ventures were the preferred mode of operation in developing countries. One explaining factor of the difference can be that Mäkelä and Larimo (Ibid.) examined manufacturing units

only, whereas Huhtaniitty and Weckman (Ibid.) examined all three above mentioned types of subsidiaries.

Table 2: Shares of Ownership Percentages in Different Regions of the World

Ownership category	EU & Western Europe	Central & Eastern Europe	Asia-Pacific	North America	Developing Countries	Latin America
100%	78%	21%	64%	81%	57%	63%
50-99%	11%	28%	16%	8%	20%	16%
50%	4%	16%	7%	2%	7%	8%
10-49%	7%	36%	14%	8%	16%	13%
N	3132	601	495	439	323	126

Sources: Aho and Mensola (1996: 123), Huhtaniitty and Weckman (1996: 126), Hussi and Puolakka (1995: 119), Karila and Maunuksela-Malinen (1996: 165)

When taking a closer look of Finnish metal industry and comparing it to another heavy industry, the forest industry, an interesting pattern reveals. Luostarinen's (1996) study, part of which is reproduced in Table 3, reports that the basic metals industry has the highest average degree of ownership of foreign units (96%). It is substantially higher than the manufacturing industry's average (86%). Furthermore, metal industry has got a higher degree of ownership than forest industry. Meanwhile metal industry's average degree of ownership has remained in the same level, forest industry's average degree of ownership has gone down in recent years. Thus, it seems that wholly owned subsidiaries are favored more in Finnish metal industry than in other industries. Luostarinen (1996: 126) further finds that generally the degree of ownership in is notably lower amongst subsidiaries which are located in distant regions as measured by business distance. Mäkelä and Larimo (1996: 123) present partially supporting evidence. According to their empirical study, cultural distance of the host country did not seem to explain ownership degrees. However, they found that economic distance of host country, as measured by GDP per capita, explained statistically significantly differences in ownership patterns. Their results suggested that the more economically distant is the host country, the more usual were joint ventures as an operation mode.

Table 3: Average Degree of Ownership of Finnish Companies' Subsidiaries in Selected Fields of Industry in 1991

Field of Industry (Standard Industrial Classification codes)	Average Ownership
D14 Wood and Wood Products	86,7%
D15 Pulp, Paper and Paper Products	80,4%
D16 Printing and Publishing	63,4%
D17 Furniture	87,9%
D23 Basic Metals	96,0%
D24 Metal Products	88,7%
D25 Machinery and Equipment	86,4%
D26 Electrical Appliances and Industries	86,1%
D27 Vehicles & Transport Equipment	80,6%
Total	86,1%

Source: Adapted from Luostarinen 1996: 120

Luostarinen (1996:178) studied also dynamics of ownership patterns and found that the average degree of ownership has fluctuated over time. From 1984 onwards until 1991, which is the last observation point in the study, the trend has been towards lower degrees of ownership. As reasons for the lowering average degree of ownership Luostarinen suggests development of other means of control than merely the formal and the move to more distant countries.

1.2 Research Gap

It seems that prior research on international joint ventures has concentrated in entry-mode decision (Anderson and Gatignon 1986), rationale for cooperative operation modes (Pan and Tse 1996), partner selection, international joint venture agreement negotiating process, critical success factors of international joint ventures (Hu and Chen 1996, Yan 1993: 15-20), instability of international joint ventures (Inkpen and Beamish 1997, Kogut 1989), control-performance relationship (Geringer and Woodcock 1995, Geringer and Hebert 1989, Mjoen and Tallman 1997), management and performance (Glaister and Yu 1994) and performance measurement (Geringer and Hebert 1991).

International business literature has traditionally held that degree of ownership determines effective controlling power (Yan and Gray 1995: 117) and that performance of a joint venture is positively dependent on the degree of ownership (Aulakh et al. 1996: 1026). However, there is an increasing amount of evidence that the ownership share is a poor indicator of control in the international joint venture. Many researchers and business managers agree that on many occasions an international joint venture partner can have more control on the venture than the relative equity participation suggests (Anderson and Gatignon 1986: 4, Yan and Gray 1995: 117). Lending support to this notion, Geringer and Hebert (1989: 230) argue that the ownership position solely is not enough in international joint ventures and hence other means of control are needed. Further, they call for more research efforts to be directed especially to informal control issues. To the knowledge of author no studies concentrating on informal control in an international joint venture exists.

Research of informal control in joint ventures would have not only academic value, but it would also be of great interest to the business community. By effectively employing informal control a company could gain a higher degree of control than the ownership proportion implies. Further, gaining more control over a joint venture is a valuable objective for companies because partner company's insufficient control over a joint venture jeopardizes the meeting of its strategic objectives (Geringer and Hebert 1989: 236). Still one more aspect is that in some organizational settings informal control can be more effective than formal control.

1.3 Purpose of the Study

This study contributes to the present academic knowledge of the informal control in international joint ventures. By building on existing relevant research this paper broadens the knowledge and understanding of the informal component of the control.

More specifically, this paper has two main objectives. First, to identify what informal control mechanisms are effective and in what decision-making processes. Second, to analyze how companies exert informal control in real-life. More specifically, the study's research questions are:

- (1) What informal control mechanisms are effective?
- (2) In what decision-making processes informal control is effective?
- (3) How do companies employ informal control?

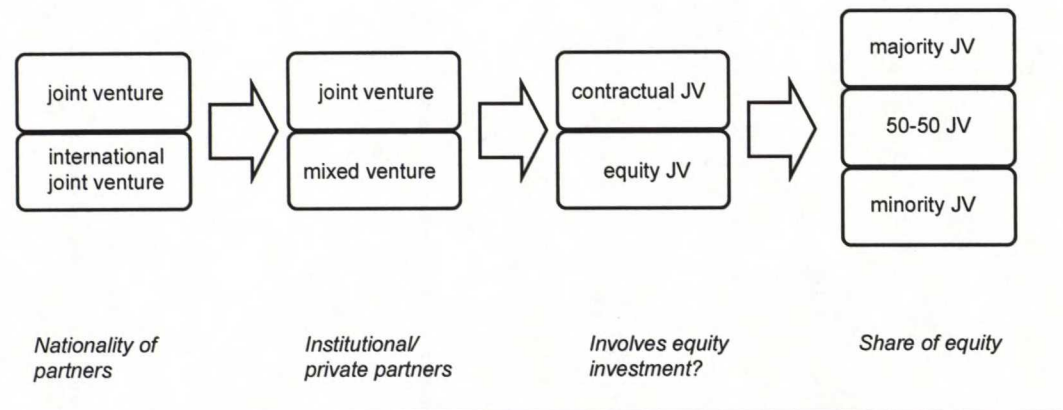
Thereafter, the study will concentrate on more pragmatic issues and will discuss managerial implications of the answers to the above questions. It should be noted that the study also brings valuable information by providing data from both partners and the joint venture itself. Scholars in the field have reported that investigating a joint venture is problematic since it is usually very difficult to gain access to information from all parties, i.e. from the management of the international joint venture and both partners (Geringer and Hebert 1991: 252). While the present study's data is collected from the joint venture and one of the partners, data from the other partner is obtained indirectly through the partner's representatives in the joint venture.

1.4 Definitions and Limitations

Classification of Joint Ventures

Joint ventures can be classified to many categories. Figure 1 collects the different possible options in four dimensions, according to which different variations of joint ventures are distinguished.

Figure 1: Classification of Joint Ventures



First, according to the nationalities of the partners a joint venture can be classified as an international joint venture if at least one of the partners is foreign to the country of the joint venture's operations. This paper will analyze a case study joint venture which operates in Chile and has a Finnish and a Canadian partner, thus it is an international joint venture. It is important to note that when the unit of observation is an international joint venture, it is reasonable to expect that there will be more room for informal control mechanisms as the parents are of different nationalities, thus having different cultural and business backgrounds and acting according to different frameworks.

Second, joint ventures can be classified to pure joint ventures and mixed ventures. A mixed venture indicates that at least one partner is a government or government owned entity. Finnish government is the largest owner of Outokumpu Oyj with 40 percent of shares and voting rights (Outokumpu 1998b: 67). Because Finnish government has not majority ownership, Outokumpu will be considered a private partner.

Third, to distinguish joint ventures from portfolio investments this paper adopts a commonly used threshold of at least 10 percent participation by a partner. Thus, an equity joint venture in this study is a business unit, either acquired or a

greenfield operation, in which two or more partners have at least 10 percent equity participation which allows control of the operations and implies sharing of risk or contribution to costs¹. A contractual joint venture on the other hand is a form whereby the partners agree to operate together and allocate costs, control and profits but no separate legal entity is established to carry out operations. This form of joint venture is widely used in the mining industry in exploration companies.

Fourth, in both equity joint ventures and contractual joint ventures a partner can have a majority stake, 50-50 stake, or minority stake and therefore the joint venture for the partner is a majority joint venture, 50-50 joint venture, or minority joint venture, respectively. More than 50% but less than 100% participation in a joint venture is considered a majority stake. Strict 50% participation is naturally considered a 50-50 stake and less than 50% but more than 10% participation is considered a minority stake.

Control

For the purposes of this paper the terms 'coordination' and 'control' are used as synonyms. This paper adopts the definition of control put forth by Geringer and Hebert (1989: 236-237):

[control is a] process by which one entity influences, to varying degrees, the behavior and output of another entity through the use of power, authority and a wide range of bureaucratic, cultural and informal mechanisms

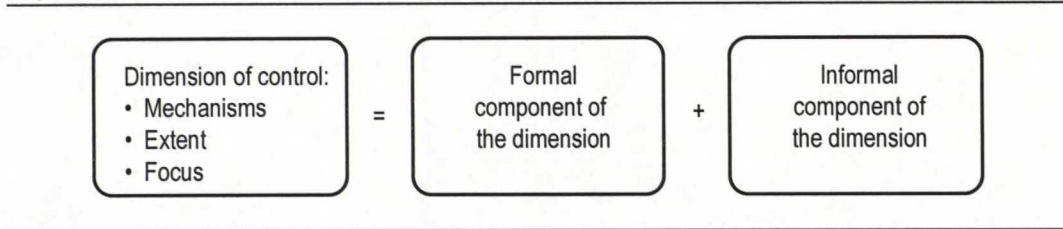
Furthermore, the present study adopts a multidimensional concept of control according to Geringer and Hebert (1989) who found that three dimensions of control can be distinguished:

1. *Mechanisms of Control*
2. *The Extent of Control*
3. *The Focus of Control*

¹ In the mine industry the term incorporated joint venture is commonly used in place of equity joint venture. Similarly unincorporated joint venture is used in place of contractual joint venture.

In order to examine informal control the above three dimensions are further divided each to the formal and informal component as depicted in Figure 2.

Figure 2: Components of Control's Dimensions



Thus, control mechanisms are composed of formal control mechanisms and informal control mechanisms, focus of control is the sum of formal focus of control and informal focus of control, and extent of control is the sum of formal extent of control and informal extent of control. A detailed examination of the control is saved to Chapter 2.

Limitations

The present study has several limitations that the reader should take into account especially when assessing generalizability of the results. First, this study examines one international joint venture between two developed country partners. In this case the partners do not have a large economic distance which is often the case in many studies of joint ventures between a developing country and a developed country partners. Second, this is a horizontal joint venture between partners that both have an extensive experience on the industry in question. Therefore the partners do not possess very asymmetric management capabilities or local knowledge, for example. This poses another limitation as regards the generalizability of results to situations where the partners clearly possess complementary resources and assets.

Used Acronyms, Abbreviations and Exchange Rates

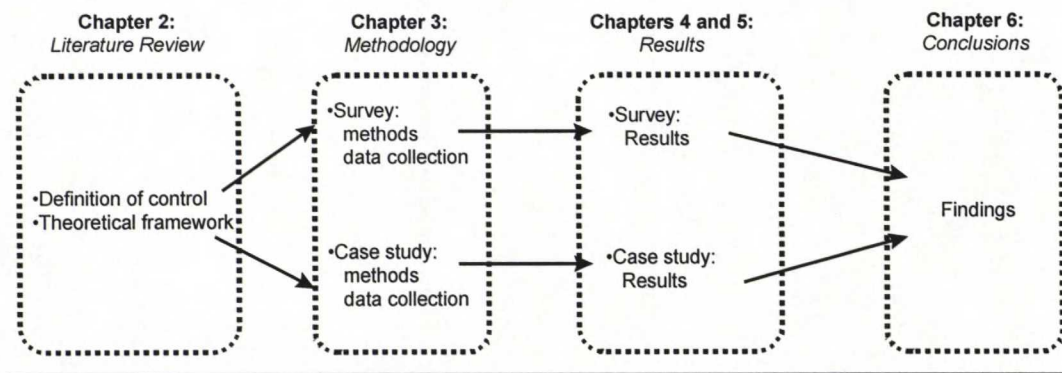
- CEO chief executive officer.
- CMZ Compañía Minera Zaldívar. The case study company, a 50-50 joint venture between Outokumpu and Placer Dome.
- FDI foreign direct investment, a cross-border equity investment greater than 10% to a unit abroad.
- FIM Finnish mark. The rate of exchange used, unless otherwise indicated, is: 5,5 FIM/USD.
- IJV international joint venture.
- JV joint venture.
- MNC multinational corporation.
- OBM Outokumpu Base Metals Oy. Outokumpu Oyj's base metal business area's parent company which is responsible for base metals exploration, mining and production. 50-50 partner of Compañía Minera Zaldívar.
- OCP Outokumpu Copper Products Oy. Outokumpu Oyj's copper business area's parent company responsible for fabrication of wrought copper and copper alloy products.
- PD Placer Dome, Inc. A Canadian mining company. 50-50 partner of Compañía Minera Zaldívar.
- PDLA Placer Dome Latin America. Placer Dome's Latin American regional headquarters.
- PDTS Placer Dome Technical Services. Placer Dome's technical expert organization.
- TQM total quality management. Leadership and management philosophy.
- USD Dollar of the United States of America.

1.5 Structure of the Study

The remainder of this text is organized as depicted in Figure 3. Literature review of relevant studies and a theoretical framework is presented in next Chapter. The use of two research methods for the study are explained in the third Chapter. The fourth and fifth Chapters present results of both research methods. The final

Chapter will provide conclusions and a summary of the study as well as managerial implications and suggestions for future research.

Figure 3: Structure of the Study



Hence, the study's research questions are answered with two different research methods. However, throughout discussion results are compared to each other and the conclusion draws together findings from both research methods.

2. LITERATURE REVIEW AND THE THEORETICAL FRAMEWORK

This chapter reviews relevant previous literature and it consists primarily of three segments. The first deals with conceptualization of control. Thereafter, the second section examines extant literature on control's dimensions while the third segment presents theoretical framework to be used in the study.

2.1 Definitions of Control

The term control can be considered from different points of view and indeed the definitions of different disciplines differ sometimes substantially from each other. Even inside the management literature, one finds a multitude of different definitions. For example:

The ability to influence systems, methods and decisions (Anderson and Gatignon 1986: 3).

The process by which an organization influences its sub-units and members to behave in ways that lead to the attainment of organizational objectives (Yan and Gray 1995: 94).

The process by which one entity influences, to varying degrees, the behavior and output of another entity through the use of power, authority and a wide range of bureaucratic, cultural and informal mechanisms (Geringer and Hebert 1989: 236-237).

For the purposes of this study the last definition seems to be the most appropriate because it explicitly states the continuous character of control and different control mechanisms. Moreover, according to the definition there are both formal and informal control mechanisms which is the focus point of the present study. It has to be noted that while the other two definitions are also well capable of capturing the essence of control, an explicit definition such as the third one seems to bring more value to the present study's analysis.

As regards the terminology of control used in literature in the field, the current situation is all but uniform. While describing the same concept, some authors use the term 'control' (for example, Geringer and Hebert 1989) while others have

adopted the term ‘coordination’ (for example, Martinez and Jarillo 1989), and still others refer to monitoring mechanisms (For example, Aulakh et al. 1996: 1012). In order to avoid confusion the present study constantly uses the term control according to the definition of Geringer and Hebert (1989) above.

However, even more important than the term used to describe the phenomena, is the conceptualization. In extant literature the definition of the concept of control has also, to a great extent, suffered from lack of uniformity thus making comparison of different studies difficult. For example, some studies have concentrated on a partial analysis of control (For example, Schaan 1988 on control mechanisms) thus rendering the comparability to other studies a daunting task. How can control be conceptualized, then? One answer to this question was provided by Geringer and Hebert (1989: 241). The authors reviewed previous research and distinguished three different dimensions of control, which are illustrated in Table 4.

Table 4: Dimensions of Control

Dimension of Control	Description
Mechanisms of control: 1) context-oriented 2) content-oriented 3) process-oriented	1) establish appropriate organizational context, e.g. corporate culture 2) formal interventions 3) influence processes and systems
Extent of control	Centralization of decision-making; partners' degree of control over IJV's decision-making processes.
Focus of control	The functions or activities partners' controlling efforts concentrate on.

Source: Adapted from Geringer and Hebert (1989)

Geringer and Hebert intended their classification to provide future research with an integrative concept of control that would enable comparability of future research. It seems that scholars in the field indeed have widely adopted this concept of control (e.g. Glaister 1995: 78-79, Glaister and Yu 1994: 27, Hu and Chen 1996: 166, Mjoen and Tallmann 1997: 261-262 Yan and Gray 1995: 94, Yan 1993: 24). Thus, it seems reasonable to adopt this conceptualization also in present study.

The remainder of this section presents a review of research on the three dimensions of control. First, we will examine the mechanisms of control, which will be followed by the extent of control and, finally the focus of control before moving to the last segment which gathers findings of previous literature and proposes a theoretical framework to study informal control in an organization.

2.2 Control Mechanisms

The pioneering scholar in the field of control is Barlow who wrote the book *Management of foreign manufacturing subsidiaries* in 1953. Thereafter, early studies concentrated either on formal mechanisms or on the organizational structure. It should be noted that according to the terminology of this study designing organizational structure is also a formal control mechanism. Leading scholars of the early phase which extends until late 1970s are Stopford and Wells: *Managing the Multinational Enterprise* (1972) and Franko: *The European Multinationals* (1976). It is of interest to note that the structure-follows-strategy paradigm has its roots in this branch of literature (Martinez and Jarillo 1989: 493-496).

Martinez and Jarillo reviewed over eighty studies on MNC's control² mechanisms. The authors divided extant research in the field to three main streams on a longitudinal basis, which are set out in Table 5.

² The authors use the term "coordination" and define it as follows: "Coordination is any administrative tool for achieving integration among different units within an organization" (Martinez and Jarillo 1989: 490). This study's definition of control is reasonably close to their definition of coordination, and besides, the authors use the term "control" meaning the same as "coordination" (e.g. p. 491, 498). Hence, in this text the two words are used interchangeably.

Table 5: Streams of Research on Control Mechanisms

Stream of Research	Description
Formal mechanisms of control	Finding the right structure for the turbulent international environment. Structure-follows-strategy paradigm.
Centralization of decision making	Locus of decision-making and bureaucratic control. Analysis of centralization by business' functions.
Informal mechanisms of control	Problems of communication, personnel training and development, corporate acculturation, transfer of employees.

Source: Adapted from Martinez and Jarillo (1989)

However, the terminology used by Martinez and Jarillo (1989) is not totally compatible with that presented only a couple of months earlier by Geringer and Hebert (1989) (Table 4). The formal and informal mechanisms classified by Martinez and Jarillo are embodied in the Geringer and Hebert's classification in the content oriented mechanisms of control and context-oriented mechanisms of control, respectively. As regards the 'Centralization of decision making' by Martinez and Jarillo, it seems to be identical with the 'Extent of control' used by Geringer and Hebert. However, according to Geringer and Hebert the extent of control is actually one dimension of control, thus it is not a control mechanism. Thus, there is a contradiction in the use of terminology in the two studies. In order to avoid this kind of confusion with terminology the present study groups control mechanisms to formal and informal mechanisms.

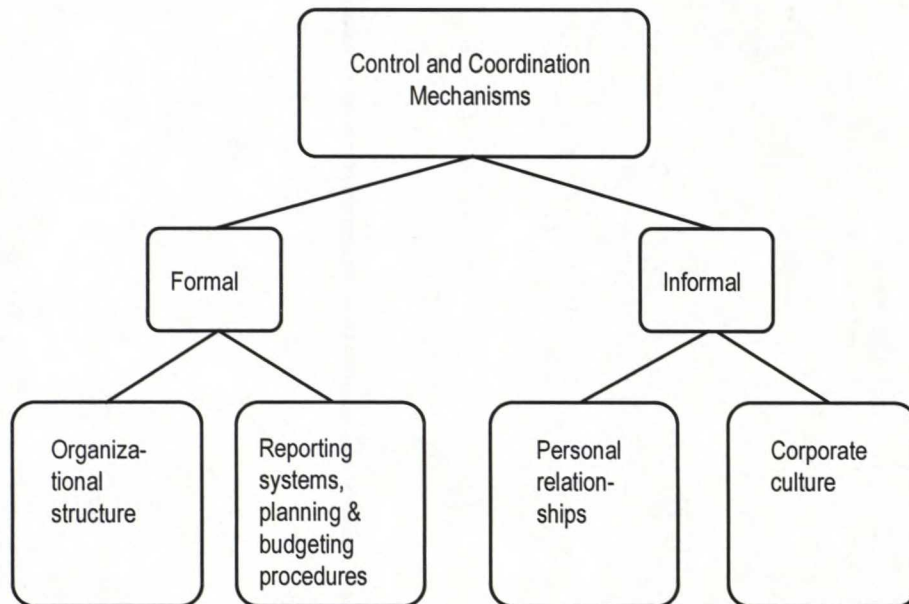
2.2.1 Formal Control Mechanisms

As the term implies, formal control mechanisms tend to be more concrete, visible, and perhaps even easier to identify than informal control mechanisms. Many scholars in the field have dealt extensively with questions regarding the formal control in joint ventures. Amongst the most usually studied are the questions of equity participation and control, minority protection clauses in legislation, scattered majority's voting power, use of mutually accepted arbitrator and complementary agreements. (Luostarinen and Welch, 1990: 162-164)

Interestingly enough, Martinez and Jarillo (1989: 498) report that studies on control mechanisms have found that North American MNCs used more formal control mechanisms than Japanese. Relating to this finding, Luostarinen and Welch state that for Japanese companies the effective control of operations is important but that they do not consider it to correlate only with the degree of ownership. ‘What counts is control *de facto* not the control *de jure*’ (Luostarinen and Welch, 1990: 164, emphasis added). The Japanese used cultural control that allowed a more decentralized decision-making process (Martinez and Jarillo 1989: 498). Cultural control is one group of informal control mechanisms as will be explained in next paragraph.

Marschan (1996) presents a useful framework to divide control mechanisms to formal and informal ones. The framework is depicted in Figure 4 and it shows that formal mechanisms are composed of two sub-groups, organizational structure and systems and procedures (Marschan, 1996: 33-35).

Figure 4: Classification of Formal and Informal Control Mechanisms



Source: Marschan (1996: 33)

To the formal mechanisms classification above could be added *content-oriented control mechanisms* which were defined by Bartlett (1986: 386-392) and subsequently adopted by Geringer and Hebert (1989). These mechanisms are formal, direct interventions by top managers or the joint venture's board of directors. Examples of these include special veto rights incorporated in the joint venture agreement or devoting specific responsibilities to parents (Geringer and Hebert 1989: 241). In particular, it seems that content-oriented control mechanisms can be grouped to organizational structure in Figure 4. Similarly, this category incorporates negative control mechanisms presented by Jean-Louis Schaan in an unpublished doctoral dissertation: *Parent Control and Joint Venture Success: The Case of Mexico (1983)*. According to Schaan, the negative control mechanisms are used by partners in order to prevent the joint venture's actions or decisions. Examples of Schaan's negative control mechanisms include use of the board of directors, executive committee and partner approval requirements for joint venture's decisions. A full listing of control mechanisms according to Schaan's classification is reproduced in Appendix 1 (Schaan, J.L., ref. Geringer and Hebert 1989).

The other category of formal control mechanisms in Marschan's (1996) framework in Figure 4, reporting, budgeting and other systems is rather similar to Bartlett's (1986: 389) *process-oriented control mechanisms*. With these control mechanisms partners seek to control the joint venture by influencing its planning and decision making processes and reporting relationships (Geringer and Hebert 1989: 241). An example of this category's mechanism is establishing regular direct reporting requirement to managers dealing most closely with the issue at hands (Bartlett 1986: 389). One more different term for this category is offered by Aulakh et al. (1996). They report that *output control* is a 'monitoring mechanism' partners use to monitor the results of the joint venture. Thus, establishing reporting requirements fits also this description. Aulakh et al. (ibid.) also describe *process control* which differs from process-oriented control mechanisms because it refers to measures taken to monitor the other partner's behavior. Thus,

establishing formal communication link between the partners is an example of a process control and it can be grouped to Marschan's (1996) group of reporting systems and procedures.

2.2.2 Informal Control Mechanisms

This section continues the classification of control mechanisms based on Marschan's (1996) framework presented in Figure 4. Informal control mechanisms are a more subtle form of control as opposed to formal mechanisms and according to the framework they can be divided depending on the level of analysis to two subgroups: at micro level to corporate culture and at mille-micro level to personal relationships (Marschan 1996: 34).

Many researchers have found that informal control mechanisms are related to some form of cultural control. Thus, the classification of Marschan (1996) in Figure 4 is supported for example by Bartlett (1986) and Geringer and Hebert (1989) who termed this category as *context-oriented control mechanisms*. According to them, context-oriented mechanisms are the most subtle form of exercising control over the decision-making process. By employing these mechanisms a partner tries to create a suitable organizational context so as to facilitate the achievement of the partner's objectives. An example of this is establishing a teamwork culture as a contrast to a culture where the joint venture's personnel perceives the partner to be an outsider (Geringer and Hebert 1989: 241). Table 6 depicts other important context-oriented mechanisms.

Table 6: Context-Oriented Control Mechanisms

- | |
|---|
| <ul style="list-style-type: none"> • The establishment and communication of clear objectives and priorities. • The development in key management positions of individuals with broad perspectives, open minds, and good interpersonal skills. • The promotion of explicit norms and rules relating to the required organizational process. |
|---|

Source: Bartlett (1986: 386)

Rather similar type of control mechanisms to the context-oriented mechanisms described above is reported by Aulakh et al. (1996), although with a different

name. They argue that a partner tries to create an organizational context that encourages the other partner firm to behave according to the interests of the first partner with *social control*. This is essentially same control mechanism as the context-oriented mechanism and therefore it is incorporated in Marschan's (1996) framework in the corporate culture subgroup. Also *positive control mechanisms* introduced by Jean-Louis Schaan (ref. Geringer and Hebert 1989: 238-241) resemble the corporate culture control mechanisms to some extent. Schaan argues that positive control mechanisms are characterized by a partner's objective to promote certain behaviors. For example, a partner can provide training programs and staff services in order promote its own points of views. Thus, it is arguable whether there is any great difference to the context-oriented mechanisms with which partners strive to create an autoregulating corporate culture. However, some of Schaan's positive control mechanisms include, in addition to pure context-oriented mechanisms, also more formal mechanisms, such as technology transfer agreements. A full listing of Schaan's positive control mechanisms is set out in Appendix 1 together with an indication which of them can be grouped to informal control mechanisms and which to formal control mechanisms.

Cultural control mechanisms can also be categorized by dividing them according to the object of control. Baliga and Jaeger (ref. Czinkota et al. 1994: 631) report shared norms of performance as an example of pure cultural control with output as the object of control and shared philosophy of management as an example of pure cultural control with behavior as the object of control. This implies that in Marschan's (1996) framework, the corporate culture category could further be divided according to the object of control.

Authors in the field have differing opinions about the usage of informal control mechanisms by companies. For example, Martinez and Jarillo (1989) argue that companies employ the mechanisms in an incremental fashion. That is, companies with relatively straightforward strategies to be implemented in their operations start by exerting formal control mechanisms from the upper panel in Table 7

which are relatively simple. As the complexity of the strategy increases companies add more and more complex mechanisms of coordination eventually starting to employ increasingly informal mechanisms, which are presented in the lower panel of the Table 7. (Martinez and Jarillo 1989: 492).

Table 7: Most Common Control Mechanisms

Structural and formal mechanisms
<ol style="list-style-type: none"> 1. Departmentalization or grouping of organizational units, shaping the formal structure. 2. Centralization or decentralization of decision making through the hierarchy of formal authority. 3. Formalization and standardization: written policies, rules, job descriptions, and standard procedures, through instruments such as manuals, charts, etc. 4. Planning: strategic planning, budgeting, functional plans, scheduling, etc. 5. Output and behavior control: financial performance, technical reports, sales and marketing data, etc., and direct supervision.
Other mechanisms, more informal and subtle
<ol style="list-style-type: none"> 6. Lateral or cross-departmental relations: direct managerial contact, temporary or permanent teams, task forces, committees, integrators, and integrative departments. 7. Informal communication: personal contacts among managers, management trips, meetings, conferences, transfer of managers, etc. 8. Socialization: building an organizational culture of known and shared strategic objectives and values by training, transfer of managers, career path management, measurement and reward systems, etc.

Source: Martinez and Jarillo (1989: 491)

The argumentation of Martinez and Jarillo (1989) is in contradiction with Bartlett (1986), who suggests that context-oriented or informal control mechanisms should form the basis of coordination, thus they would not be ‘an advanced’ mode of control. However, according to Bartlett informal control is important because the environment of MNCs is increasingly becoming characterized by change and diversity, and their capacity to exercise direct control is becoming inadequate. Thus, it is better to create an organizational context which helps in the coordination task. This is even more important in a setting where large cultural, geographical and organizational distances are present (Bartlett 1986: 386). Marschan’s (1996) study supports the notion of Bartlett. Present study’s case company indeed possesses all these three characteristics and therefore it will be interesting to see whether the empirical data supports the works of Marschan and Bartlett.

2.2.3 Summary of Control Mechanisms

In order to avoid confusions with the myriad different categorizations of control this section attempts to present in Table 8 an umbrella categorization of control mechanisms to formal and informal control mechanisms according to their nature.

Table 8: Summary of Control Mechanisms

Marschan's Group	Marschan's subgroup	Corresponding groups of other authors	Examples
Formal control mechanisms	Organizational Structure	<ul style="list-style-type: none"> Content-oriented control mechanisms (Bartlett 1986, Geringer and Hebert 1989) 	veto-rights board of directors executive committee
	Reporting systems, planning and budgeting procedures	<ul style="list-style-type: none"> Process-oriented control mechanisms (Bartlett 1986, Geringer and Hebert 1989) Negative control mechanisms (Schaan 1983) Output Control (Aulakh et al. 1996) Process control (Aulakh et al. 1996) 	approval requirements approval required for plans reporting requirements formal communication link between partners
Informal control mechanisms	Corporate culture	<ul style="list-style-type: none"> Context-oriented control mechanisms (Bartlett 1986, Geringer and Hebert 1989) Social control (Aulakh et al. 1996) Positive control mechanisms, partly (Schaan 1983) Pure cultural control, as an objective: <ul style="list-style-type: none"> -output -behavior (Baliga and Jaeger 1984) 	establish a teamwork culture establish shared values providing training programs shared norms of performance shared philosophy of management
	Personal relationships	<ul style="list-style-type: none"> Positive control mechanisms, partly (Schaan 1983) 	relations with joint venture's general manager; phone calls, meetings, visits

As can be inferred, other categorizations used are partly overlapping with those used by Marschan, but not totally. However, nearly all allow a one-to-one grouping to formal and informal control mechanisms. Nevertheless, it seems that Marschan's classification provides more appropriate platform to investigate control in the present study due to the explicit classification to formal and informal control mechanisms.

2.3 Extent of Control

The extent of control is the second dimension of the holistic concept of control (Geringer and Hebert 1989) and it refers to the centralization of decision making-process. According to Martinez and Jarillo (1989: 497), stream on research on centralization of decision making started in late 1950s and has continued towards these days. The main object of the branch has been to measure the extent of control the partners exercise over a subsidiary, or joint venture for that matter. Thus, the roots of the research on the extent of control lie in the literature of centralization/decentralization of decision-making process. One of the leading authors of the extent of control in the context of international joint ventures is Killing (ref. Geringer and Hebert 1989). Killing divided joint ventures to dominant partner, shared management and independent joint ventures on the basis who actually makes decision on various issues such as sales targets, budgeting, quality control and production process (Geringer and Hebert 1989).

To the knowledge of the author no empirical or theoretical study exists examining the informal extent of control. However, it seems justified to distinguish the informal component of this dimension also because it can be argued that partners are able informally to have an influence on some decisions that according to their formal power they should not be able to have.

2.4 Focus of Control

Third dimension of control is the focus of control which refers to the functions where partners concentrate their controlling efforts. This dimension of control was first explicitly analyzed by Jean-Louis Schaan in his unpublished doctoral dissertation of 1983 (ref. Geringer and Hebert 1989: 239-241). An implication of this dimension of control is that partners can have a division of work in the operations of a joint venture and thus in some cases both partners can be dominant at the same time but in different functions of the joint venture.

According to empirical findings partners seek to exert control over critical functions of the joint venture rather than trying to get total control of the whole operation (Geringer and Hebert 1989: 240). Lecraw (1984) found that 'effective control' correlated positively with success. The effective control is defined as an average of control over different factors weighted with assessment of the factor's importance. Hence Lecraw's findings lend support to the importance of control's focus dimension. It seems reasonable to hypothesize that the partners prioritize control over certain functions already in the joint venture negotiating and partner selection stage. Therefore, it can be argued that the partners try to achieve favorable terms in the agreement as regards the formal control of the most important functions. For the present study the above discussion implies that it is possible that also informal control efforts tend to be related to gaining control of the critical functions. The justification for this is that because the partners prioritize the control of the critical functions over less important functions, they strive develop a much closer monitoring relationship with the critical functions. However, practically no previous literature on this issue exist and therefore this area is of special interest in the present study.

2.5 Summary of Relevant Studies

In Table 9 the most relevant studies are collected together. The papers are organized according their date of publication.

Table 9: Summary of Relevant Previous Studies

Paper	Branch of literature, subject of paper	Empirical data	Relevant Findings
Lecraw (1984)	<ul style="list-style-type: none"> Bargaining power Statistical tests on the control-success relationship, equity share-success relationship, and equity share-control relationship 	Questionnaires during interviews with 153 subsidiaries of TNCs based in US, Europe, Japan and LDCs	Success not dependent on control on all activities but dependent on control of critical activities. Control not dependent on share of equity.
Schaan (1988)	<ul style="list-style-type: none"> JV Control How a partner can increase its control (with control mechanisms) 	Based on experience of interviews of 48 senior executives of 23 JVs	Effective control over an IJV demands considerable effort
Geringer and Hebert (1989)	<ul style="list-style-type: none"> Transaction-cost, strategy-structure fit Strategy-structure fit and Control-performance relationship 	Literature review + theoretical development	An integrated strategy-control model developed. Three dimensional concept of control developed.
Martinez and Jarillo (1989)	<ul style="list-style-type: none"> Literature analysis Evolution of studies on control mechanisms 	85 academic papers analyzed according on what they are based on	Studies on informal control mechanisms have evolved from 1970s onwards as latest stream of research
Geringer and Hebert (1991)	<ul style="list-style-type: none"> Testing hypotheses of reliability and comparability of different objective and subjective IJV performance measures 	109 US firms, one parent. 32 Canadian two- and three-parent IJVs interviewed all parents + IJVGm. Pre-tested questionnaires, semi-structured interviews	'Objective measures were positively correlated with parent firm's reported satisfaction with IJV performance.' Use of single respondent to obtain data yields relatively reliable data of performance in general level, but not in detailed.
Pfeffer (1992)	<ul style="list-style-type: none"> Organizational politics Power in organizations 	Theoretical	Formal authority not effective in situations where cooperation is needed, cultural control more effective, exerting personal power most effective
Glaister (1995)	<ul style="list-style-type: none"> Analysis of control's dimensions Application of Geringer and Hebert's (1989) framework 	94 UK parents of IJVs with partner firms from Western Europe, USA and Japan, formed since 1980	Majority partners gained disproportionate control, minority partners not able to gain disproportionate control. Supports the focus dimension. Extent dimension seemed too crude. Control dependent on equity share.
Yan and Gray (1995)	<ul style="list-style-type: none"> Negotiations perspective, bargaining power Explain the distribution of control among the partners in a JV 	Case study of four JVs between the US and People's Republic of China. Data from interviews and archives.	An integrative model of IJVs
Aulakh et al. (1996)	<ul style="list-style-type: none"> Behavioral approach Trust and performance, maintenance of partnerships 	Mail survey: 257 US fortune 500 firms. (response rate 39,4%) Information only from US parent.	Use of social control helps build trust and enhances market performance. Output control detrimental to partnership performance. Ownership level and partnership performance not statistically related
Hu and Chen (1996)	<ul style="list-style-type: none"> Econometric study Analysis of factors explaining IJV performance 	134 Sino-foreign well-performing [outstanding] manufacturing JVs	effect of control on JV performance is insignificant
Marschan (1996)	<ul style="list-style-type: none"> Communication Inter-unit communication and less-hierarchical structure 	Case analysis of one Finnish MNC's subsidiaries	Informal control difficult to achieve due to barriers of communication
Park (1996)	<ul style="list-style-type: none"> Interorganizational networks Framework for network control 	204 equity based interfirm linkages in electronics industry	Control mechanisms should take into account the type of interdependence and the nature of governance
Lindholm (1997)	<ul style="list-style-type: none"> National cultures Culturally related problems in foreign subsidiary steering 	Case study of Finnish headquarters and mail survey of their subsidiaries in Spain	More culturally related problems in close steering relationships. Close steering relationships in manufacturing units.
Mjoen and Tallman (1997)	<ul style="list-style-type: none"> Transaction cost economics, bargaining power theory Resources -equity share-control -performance relationships 	Testing of an econometric model on 147 IJVs having Norwegian partner	Bargaining power can explain increases in level of equity and control

Second column from the left describes the branch of literature the study belongs or uses. As can be seen some of the most applied frameworks in examining control in international joint ventures are the bargaining power approach, transactions cost economics, and organizational politics, negotiations approach and network power approach. Furthermore, communication and cultural issues also seem to have received academic attention. Especially the bargaining power has received support from other studies. For example, recently Mjoen and Tallman's (1997) results confirm that bargaining power can explain control in an international joint venture. It seems that both the case study approach and survey approach have been used in gathering empirical data. Particularly international joint ventures in China have been examined, this was revealed also in archival search of articles. One obvious reason for this is the opening of the Chinese market and subsequent penetration of Western companies to the new market.

In the relevant findings column the conflicting results can be seen clearly. For example, Lecraw (1984) found that effective control correlates positively with performance. However, Hu and Chen (1996) report disconfirming finding. According to them the effect of control to performance is insignificant. One potential explanation for this is that while Lecraw (*ibid.*) actually measured the focus of control, Hu and Chen (*ibid.*) considered all three dimensions.

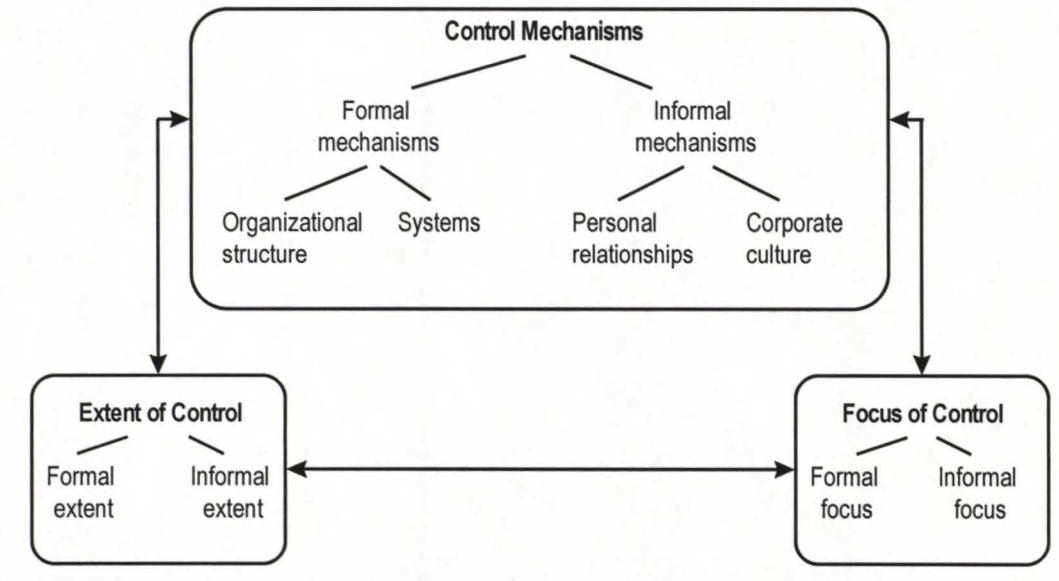
All in all, the extant literature seems to indicate that many aspects of control in international joint ventures are researched and at the same time it seems that the area still has many areas where further research is needed.

2.6 Theoretical Framework

This section develops the theoretical framework to be used in the empirical part of the study. As described earlier this paper adopts the multidimensional concept of control of Geringer and Hebert (1989). According to the definition, control is

comprised of three dimensions that are: the control mechanisms, the extent of control and the focus of control. The framework is depicted in Figure 5.

Figure 5: Theoretical Framework of the Study



The three dimensions of control, mechanisms, extent and focus are interrelated as suggested by Geringer and Hebert (1989). However, this framework is an application of their framework as regards categorization of the control's dimensions. As the literature review showed, there are many different ways to divide the control mechanisms and Geringer and Hebert have adopted the classification put forth by Bartlett (1986). According to it, control mechanisms can be divided to content-oriented, process-oriented, and context oriented control mechanisms. However, as discussed earlier Marschan's (1996) categorization of control mechanisms is more appropriate considering objectives of present study. Hence, control mechanisms are divided to formal control mechanisms and informal control mechanisms. Furthermore, in order to examine informal control, also the other two dimensions of control are divided to formal and informal components.

3. METHODOLOGY

The present study employs two separate research strategies to address informal control in an international joint venture. Firstly, a mail survey is conducted in order to describe the general effectiveness of informal control mechanisms. Secondly, an in-depth case study is conducted to analyze the actual usage of informal control mechanisms by joint venture partners. The remainder of this chapter is organized in the following way. First, the selection of research methods is explained. This is followed by a description of the methodology of the survey and the case studies. Finally, the variables and their operationalization are discussed.

3.1 Selection of Research Methods

There are five different general research strategies or approaches: experiments, surveys, histories, analysis of archival information, and case studies (Yin 1989: 13). According to Yin (1989), the most appropriate research strategy can be chosen after analyzing how the research problem relates to three different conditions, which are (1) the type of research question, (2) the degree of control the researcher has over actual behavioral events, and (3) the degree of focus on contemporary events (Yin 1989: 17).

According to Yin's (1989) criteria, survey strategy was chosen to address the first two research questions, 'What informal control mechanisms are effective?' and 'in what decision-making processes informal control is effective?' The type of research questions, the fact that they do not require control over behavioral events and questions focusing on contemporary events imply that both a survey and an archival analysis could be the most appropriate strategies. However, due to the nature of the subject secondary data does not exist because it has not been researched before in OBM.

Similarly, a case study strategy seems to be the most suitable research strategy for question three, 'how do companies employ informal control?' According to Yin (1989: 20), a case strategy has a special advantage when:

A 'How' or 'why' question is being asked about a contemporary set of events, over which the investigator has little or no control'

This is exactly the situation with the research question.

3.2 Survey

The design of survey is descriptive as opposed to analytical, because the objective is to describe the effectiveness of informal control in an organization. Thus, the objective is not to test a theory, which would be characteristic to an analytical survey. Furthermore, the problem is structured which also points towards a descriptive design (Ghauri et al 1995:59). Furthermore, cross-sectional data is appropriate since the research problem does not involve consideration of dynamic relationships (Ghauri et al 1995:35-36).

3.2.1 Selection of the Sample

Definition of the population for the survey is relatively difficult. However, approaching the definition from the angle of objectives provides with some guidance. Thus, the population is all persons in Outokumpu who have experience of informal control. In practice, however, it would be all but impossible to draw up a list of persons who have the required experience in a company whose personnel averaged more than 14.000 in 1997 (Outokumpu 1998b: 12). Furthermore, it has to be noted that the objective is not to try to make conclusions of how Outokumpu's employees perceive the informal control but to gather as many opinions as possible about the informal control from people that have much experience of it. Thus, a convenience sample is the most appropriate one. The nature of the data needed requires extensive experience of a multicultural environment. Hence, selecting people with mere 'international business experience' criteria would probably yield too many respondents that do not have enough experience to answer all the questions. Therefore, the role of respondents

in the survey can be characterized more to informants or experts rather than to representatives of the population.

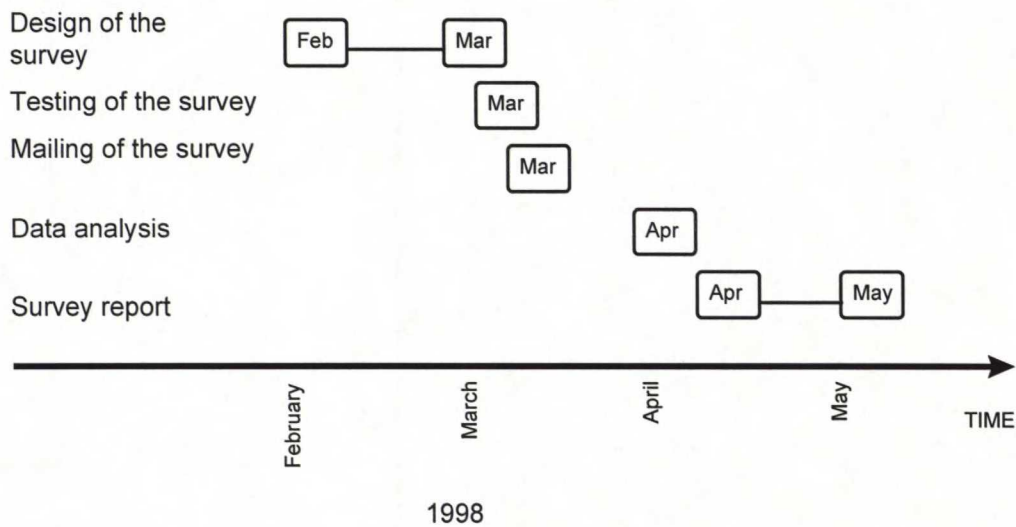
Respondents were selected from Outokumpu Base Metals and Outokumpu Copper Products business areas with the help of Senior Vice President - Finance and Administration of OBM and Director - Human Resources Development of OCP who drew up a list of people having the most extensive international business experience. In order to get more reliable results, it was hoped that at least thirty persons could be identified from both divisions. However, there was one feature of the respondents that was deemed to be of special interest due to the subject of the study. This was their experience of joint ventures. It was hoped that both the group that does not have joint venture experience and the group that has joint venture experience would be large enough so as to allow for analysis of possible differences between the answers of these two groups.

The selected method of collecting the data is a mail survey. The other two alternatives, personal interview and informed survey namely, are ruled out based on the following considerations. Firstly, the research question is not so sensitive as to suggest that personal contact between the researcher and respondents would be required. Secondly, the quality of data need not be extremely high because data triangulation can be made between the survey and the case study, thus giving an opportunity to raise the reliability of the study's results. The sample consists of people in five continents and any other means than a mail survey would rise the budget to unbearable numbers. This is even more so because the case study is relatively large and resource consuming.

3.2.2 Data Collection Process

Data collection process of the survey is partially overlapped with that of the case study as will be seen later on. Figure 6 depicts the different phases this part of the study involved.

Figure 6: Survey Data Collection



Design of the survey, February - March 1998

Survey was developed on the basis of previous related studies (For example, Yan 1993), insights gained from pilot interviews³, and feedback received from OBM's management. Also, special effort was made as regards the refining of wording and design of questions in order to enhance the reliability of the study's results. Moreover, no escape route was designed, i.e., there are no 'Don't know' alternatives which according to Ghauri et al (1995:62-63) raises the validity of the study. A seven point interval level scale was selected as the answering alternative due to the objective of getting data on relative importancies (Ghauri et al 1995:45). The survey is reproduced in Appendix 2.

Testing of the survey, March 1998

The survey was tested on one OBM's expatriate manager having considerable international business experience, Mr. Markku Mansikka, Administration and Finance Manager of Minera Outokumpu Chile S.A. The respondent was asked to complete the questionnaire thinking out loud and to give special attention to the

³ Pilot interviews will be discussed in section 3.3.2.

language and words used as well as to the clarity of questions. After testing, final corrections and refinements were made.

Mailing of the survey, March 1998

All in all 63 surveys were mailed in the beginning of March and returning date was fixed to two weeks from the date of sending. In order to increase response rate the survey was accompanied with a cover letter from high organizational position explaining the importance of the study and recommending to answer. The cover letter can be found in Appendix 3. As a further incentive to answer, full anonymity of respondents was promised to maintain and a copy of the study's general results was promised to those who wanted it.

Data analysis, April 1998

The analysis phase started after two weeks from the last day of return, after it was evident that no new questionnaires will be returned anymore. Data was analyzed using a statistical software package SPSS, version 6.1.3. The most common analysis were distributions, means, cross-tabulations and both paired-observations and unpaired-observations t-tests.

Report of Results, April - May 1998

The survey report was written and final refinements to it were made after feedback from the management of OBM and Assistant Professor Eero Vaara of Helsinki School of Economics and Business Administration.

3.3 Case Study

This chapter outlines and describes the case research process starting from the selection of the case company through to the gathering and analysis of data and writing of the case study report. However, prior to choosing the case company, the unit of analysis is defined, implications of the study's propositions for the data collection are considered and design of the case study is explained.

The appropriate *unit of analysis* for the case study is an international joint venture. The justification for this is that the informal controlling takes place on the international joint venture level. Thus, it would not yield valid results to examine only one or the other of the partners because it is the partners that exert informal control on the international joint venture's activities. On the other hand the unit of analysis can not be any smaller than a whole joint venture since the informal control is comprised of three dimensions of which one is the focus. Therefore, in order to examine focus of control in an organization, the whole entity has to be considered.

It seems that bulk of the case data is to be found from two sources: archival analysis and personal interviews of the case company's management. This is implied in the *study's propositions*, namely that partners' informal control over an international joint venture can be exerted through corporate culture or personal relationships. As regards formal control, the researcher needs to examine the organizational structure and systems and processes. Hence, archival analysis can compliment the data obtained from interviews. It should be noted, that the archival analysis also serves as an opportunity to learn about the venture's past operations and potential critical moments in its management. Thus, the researcher can subsequently use that information to focus in the actual case interviews to the most relevant issues.

The present study uses a *single-case, embedded design*. The design has to be embedded because an analysis of control mechanisms already implies that there are two levels, the micro and the mille-micro levels, that need to be considered. Further, a single-case design was deemed to be adequate given the exploratory nature of the research.

3.3.1 Compañía Minera Zaldívar - The Case Company

Present study employs theoretical sampling for the selection of the case company. According to Eisenhardt (1989b) in case studies the other generic selection

strategy, random sampling, it is not necessary and not even preferable. When using theoretical sampling, the researcher should choose cases that represent extreme situations that seem to be overly interesting from the study's viewpoint. Hence, in the present study theoretical sampling implies selection of the most significant international joint venture of OBM (Eisenhardt 1989b, 537).

Since the objective of the case study is to examine how partners exert informal control in an international joint venture, and since it is proposed that informal control is manifested by people, the case company is ideally one that has a broad intercompany interface on personal level. OBM has principally two different kinds of foreign subsidiaries and joint ventures: exploration and mining companies which are collected in Table 10. While exploration companies regularly are small as regards the number of people in the organization, mining operations typically involve large capital outlays and an a considerable number of employees.

Table 10: Largest Foreign Operations of Outokumpu Base Metals in 1997

Name of the operation	Country	Type of operation	Outokumpu Group's ownership
Black Swan	Australia	nickel exploration	67%
Cliffs Mt. Keith	Australia	nickel exploration	100%
Cygnnet	Australia	nickel project	67%
Forrestania	Australia	nickel mine	100%
Grong	Norway	copper and zinc mine	100%
Honeymoon Well	Australia	nickel exploration	100%
Montcalm	Canada	nickel exploration	100%
Nikkel og Olivin	Norway	nickel mine	70%
Panorama	Australia	zinc exploration	64%
Relincho	Chile	copper exploration	100%
Santa Catalina	Chile	copper exploration	100%
Silver Swan	Australia	nickel mine	67%
Tara	Ireland	zinc and lead mine	100%
Zaldívar	Chile	copper mine	50%

Source: Outokumpu (1997: 55-58)

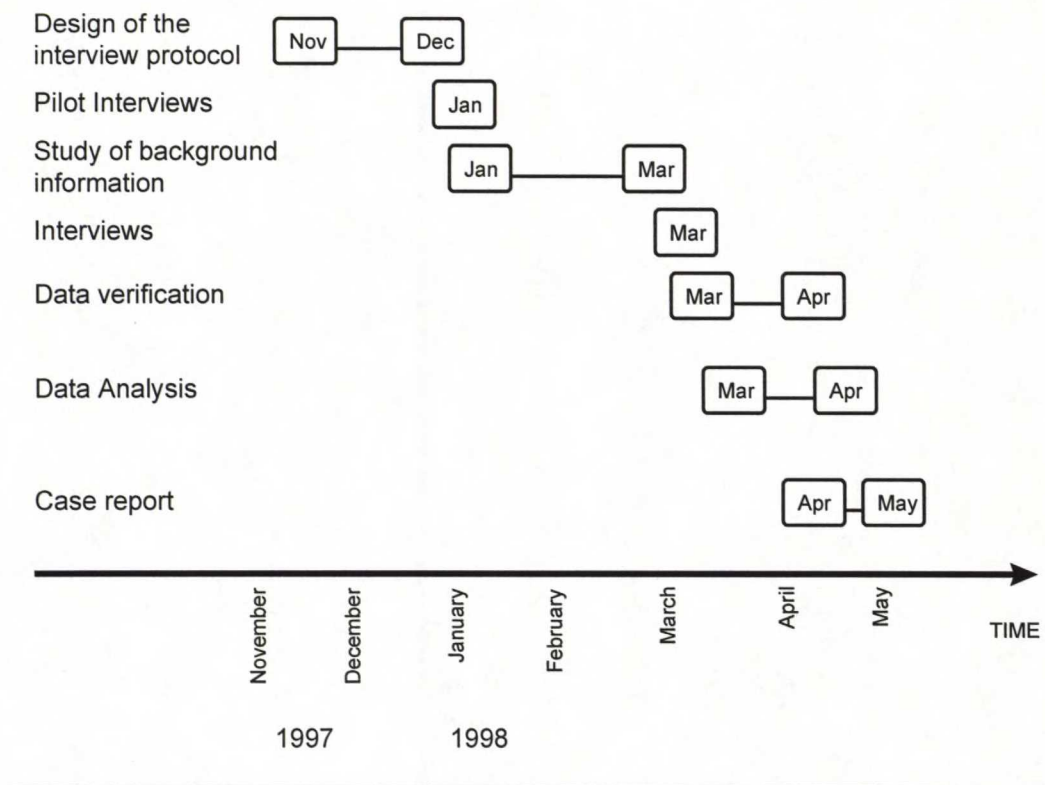
Highlighted operations in Table 10 show OBM's 6 active international joint ventures. However, in most of them the personal-level intercompany interface tends to be rather limited. Only Nikkel og Olivin and Zaldívar are equity international joint ventures which themselves operate the mine.

Zaldívar copper mine satisfies the prerequisite criteria of being an international joint venture, and of having enough personal level interface. Further, as it is a 50-50 joint venture, the partners should in principle have equal control over the international joint venture. Thus, it will be of particular interest to examine whether this is also the reality or is one or the other partner exerting more control mechanisms, is there focused control, and is the extent of control equal between the partners. The Zaldívar case was also of great interest to the OBM management because of its very large size and high level of intercompany interface. After discussions with OBM's management, the Zaldívar case was selected and permission to conduct the case study and access to internal documents were granted. Furthermore, it was agreed that four pilot case interviews would be made prior to the actual case study.

3.3.2 Data Collection and Analysis

The data collection process for the case study can be divided to seven distinguishable phases: (1) design of the interview protocol; (2) pilot interviews; (3) study of background information; (4) interviews; (5) data verification; (6) data analysis; and (7) composing the case report. Figure 7 presents how the different phases relate to each other chronologically. Following is a one by one description of each phase.

Figure 7: Case Data Collection



Design of the interview protocol, November - December 1997

In order to gain maximum learning experience from the pilot interviews, the researcher developed a case study protocol which is reproduced in Appendix 4. The use of protocol is likely to increase reliability of the study (Yin 1989:70). Further, the protocol enabled the researcher to concentrate more on technical aspects such as posing questions in a neutral manner.

Pilot Interviews, December 1997 - January 1998.

Altogether four pilot interviews were conducted. They served as an invaluable opportunity to refine the interview protocol and helped the researcher to better concentrate on the most relevant facts. Furthermore, the pilot interviews provided real-life insights to the subject from experienced practitioners and thus increased the internal validity of the actual case study by suggesting refinements to the interview protocol.

Pilot interviewees were selected after an assessment of their experience in OBM's international joint ventures and the accessibility for an interview. The selection was done with the help of Mr. Jukka Järvinen, Senior Vice President - Finance and Administration of OBM. The pilot case interviewees were firstly, Mr. Eero Laatio, the Deputy President of Outokumpu Base Metals. He has significant personal experience of Outokumpu's international joint ventures and was readily available for an interview at the OBM headquarters in Espoo. Secondly, Mr. Petri Fernström, Senior Vice President - Corporate General Counsel of Outokumpu Group was an excellent source of information due to his knowledge of joint venture negotiations and agreement drafting. Third, Mr. Ingmar Haga, CEO and President of Outokumpu's subsidiary in Canada, Outokumpu Mines Ltd. and Fourth, Mr. Adrian Molinari, former CEO of the same company were available for interview in Toronto. Both gentlemen possess wide experience of international joint ventures and also have been exposed to the national and corporate cultural differences in Outokumpu's business operations.

Pilot interviews were taped with the permission of all interviewees and subsequently written in the form of memoranda in order to maximize learning from the interviews. Furthermore, data verification was made by posting results from pilot studies to the interviewees and asking them to review the correctness of conclusions and quotations. A good many helping comments and feedback was received. During and after pilot case interviews the interview protocol was modified to concentrate more in the personal characteristic and intercultural issues.

Study of background information, January - March 1998

Due to the strong support given by the OBM's management, the researcher had access to all published and most of unpublished material concerning the case company. These include: press releases, promotional material of the case

company, shareholders' agreement, minutes of the board of directors meetings with attachments and related communiqué.

Analysis of the described material helped the researcher to develop a better understanding of the case company and its history and different significant events during its life. Especially, the examination of minutes of the board of directors meetings and related memoranda added greatly to the researcher's knowledge of the case company and thus helped to concentrate in the most relevant issues in the interviews.

Interviews, March 1998.

Eight interviews were conducted with the case company's management and one member of company's board of directors during a data collection trip made to Chile in March, 1998. The researcher visited the case company's all offices: headquarters in Santiago, the Antofagasta office and the mine site.

Interviews were semistructured. Therefore the case study protocol was used but the interviews remained open-ended in order to gain maximum benefit of the case study approach. Thus, the role of the interviewees was between an informant and a respondent. Therefore, it is critical to the success of the study to make a careful selection of interviewees (Yin 1989:89). Hence, interviewees were selected to be individuals with extensive experience on the case company and representing both partners. A complete list of interviewees and their position in the case company is set out separately in the References section.

One interview per person was made and the language used was Finnish in the case of Outokumpu's representatives and English in the case of Placer Dome's representatives. Interviews were not taped due to the potentially delicate nature of the study's topic. However, the researcher took notes during the interviews and subsequently wrote down all new findings after each interview. Due to the informant role of interviewees, all insights derived from the interviews were

carefully corroborated subsequently using other sources of evidence and cross-checking the information. At the same token it has to be noted that the very situation of interviews provided the researcher with various possibilities to make direct observation. The observation took place before and during the interviews and during a tour around the mine and facilities. According to Yin (1989: 70), even casual observation can increase the reliability of the study.

Data verification, March - April, 1998

Empirical data from interviews was organized according to the classification of the theoretical framework and a draft version of the case report was sent to the interviewees for their comments and possible corrections. Indeed, as in pilot interviews also here the feedback proved very helpful as many interviewees provided extensive further comments and suggestions for new points of view. For example, one of the interviewees made a long phone call from Chile and provided the researcher with an excellent review of especially the training programs used in the case company and the attitude of the partner companies.

Data analysis, March - April, 1998

This phase overlaps partially with the data verification process. It is fairly usual in case studies as the interviewing and the verification processes in themselves include elements of analysis. Further, the overlapping of analysis enables the researcher to make adjustments as the study progresses (Eisenhardt 1989b: 538-539). Data analysis was carried out on the basis of the theoretical propositions laid out in the theoretical framework. This method is the most preferred data analysis strategy in case studies (Yin 1989: 106-107).

The single, embedded case design implies that explanation building technique is the most suitable analyzing technique. This is due to the lack of other cases to which makes pattern-matching technique inapplicable. Therefore, the case data was analyzed by using the explanation building technique and causal links explaining informal control were sought (Yin 1989: 113).

Writing of the case report, April - May 1998

This phase also was partially done in parallel with the data analysis and data verification processes. The final case study report is a result of analyzing the data, making data verification and getting feedback both from the interviewees and OBM's management.

As can be seen, preparation and the actual collection of data involved many phases and took a considerable proportion of time of the whole study. Although it might seem that the actual data analysis was done in a relatively short period of time, it is worthwhile to note that actually the reported data analysis phase is only one part of the whole analysis process. It is the iterative nature of a case study itself that makes it more difficult to separate data collection from data analysis. For instance, the first case interview focused more on getting a rather broad picture of the manifestations of informal control during the life of the case company while latter interviews concentrated more on further inquiries of relevant issues that were revealed in earlier interviews. Hence, it is not only during the two months that the data analysis was made but rather from the first pilot interviews through the writing of the case study report.

3.3.3 Quality of Data

There are four aspects of quality in the case study approach, which are: the construct validity, the internal validity, the external validity, and the reliability (Yin 1989). This section discusses how these aspects relate to the case study and starts with a brief review of the sources of data used.

This study uses multiple sources of evidence in order to increase the quality of the case study (Eisenhardt 1989b:538, Yin 1989:85). There are six different sources of evidence which are: documents, archival records, interviews, direct observation, participant-observation, and physical artifacts. Of these, only the participant-observation and physical artifacts sources were left out as either being impossible

(participant-observation) or deemed irrelevant (physical artifacts) for the study. Furthermore, as described earlier pilot case interviews and archival analysis of internal and external material of the case company can also be seen to raise the quality (Yin 1989: 61).

Validity of the Results

From the preceding discussion it seems that the construct validity of the study is good. The main reason for this argument is that the framework suggests that informal control can be exerted through organizational culture and personal relationships. Hence, personal interviews can provide with relevant data.

The internal validity, or whether the results obtained in the case study are true is the first prerequisite in assessing the value of findings (Ghauri et al. 1995: 33). Test effect and selection bias are most relevant threats to internal validity of the present study. The test effect refers to potentially different behavior due to the research situation itself. In order to avoid this the researcher maintained a neutral disposition to the subject when conducting the interviews and avoided making too rapid and simplistic conclusions on the basis of an individual interview.

The internal validity seemed to be reasonable good as the data verification did not yield substantial differences of opinions on the part of interviewees. However, there was one result that was initially wrong. This is the initiators of different training programs in the case company. It seems that not everyone of the interviewees actually knew how the training programs used in the case company were selected. However, this was corrected during the data verification phase.

The selection bias is potentially more serious threat to the internal validity of the results. It has to be noted that the interviewees perceptions of informal control differed substantially according to their organizational level. In particular, it seems that employees in lower levels perceive the informal control more strongly than in higher levels of the organization. Furthermore, in the case company no host

country national was officially interviewed for the study. This may lead to a bias in the results as regards the amount or strength of informal control perceived in the organization. Therefore the case study concentrates more in the informal control mechanisms rather than the strength of informal control.

External validity of the study is likely to be good. As described earlier, the case company is an equity joint venture that itself operates the mine. Therefore, it is reasonable to expect that the results obtained from the case study have significance for other production international joint ventures as well.

However, there are two more aspects that have to be taken into account when assessing the external validity of present study. These are the nature of the operation and the characters of the partners and the place of the operation. Firstly, as the case company is an equity production joint venture, it most probably will have different type of dynamics than for example a research joint venture. Therefore, the external validity of results is most likely to be restricted to production joint ventures where day-to-day operations play a significant role. Secondly, the case company's partners are both established large multinationals which operate in a third country. This may have implications to the focus and extent of informal control. Therefore generalization of results to other settings should be done with precaution.

Reliability

In the present study reliability is firstly and foremost assured by triangulation of data (Yin 1989: 97) made possible by the embedded case design, multiple sources of evidence and the data verification. The study's reliability was also increased with the creation of a retrievable case study data base (Yin 1989:99). In the data base all newspaper clippings, other articles, bibliographic references, press releases, annual reports, used Internet-resources, summaries of interviews and other data collection, and other published material are organized. The case study

data base is at the author's possession for possible later retrieval for research purposes.

3.4 Operationalization of Variables

3.4.1 Control Mechanisms

In the mail survey respondents are asked directly to assess the effectiveness of several control mechanisms, both formal and informal. A seven point scale is used with the lower extreme nominated as 'not effective at all' and the higher extreme as 'very effective.' In addition, the scale nominates the middle point as 'neutral.' One question per control mechanism is asked and the effectiveness of the mechanism is assessed on the mean and the frequency distribution of answers.

In the case study primarily archival analysis is used to examine the formal control mechanisms. In order to analyze informal control mechanisms two categories of evidence are looked for: the corporate culture and personal relationships.

3.4.2 Extent of Control

The mail survey does not examine the extent of control and therefore this dimension is analyzed in the case study. Formal extent of control is measured according to the decision-makers on pricing policy, production design, production scheduling, production process, quality control, sales targets, cost budgeting and capital expenditures decision-making processes. More specifically, it is assessed who or what combination of the partners and the case company's management makes the above decisions. As a result, the overall situation of the case company is assessed in a three point scale: dominant partner, shared management or independent international joint venture. Similarly, the informal extent of control is measured as the actual practice in the joint venture as regards these issues. Possible subtle influence of either partner is also counted for the informal extent of control.

3.4.3 Focus of Control

The mail survey examines the informal focus dimension of control from the point of view of how much different functions are informally influenced. This is accomplished in the questionnaire with a set of questions asking respondents to assess how much various decision-making processes are informally influenced according to their experience. A seven point scale is used with the minimum extreme nominated as 'not influenced at all' and the maximum extreme as 'heavily influenced.' Furthermore, the midpoint is indicated as 'neutral.' One question per decision-making process is asked and the informal influence on each is analyzed separately similarly as with the control mechanisms.

In the case study formal focus of control is assessed with an archival analysis of case company's internal material. An explicit allocation of a function or activity to a partner is considered as an evidence of formal focus. On the other hand, informal focus of control is analyzed with data from interviews. Partners' voluntary resource contributions or increased activity in an area are held as a sign of informal focus of control.

4. RESULTS FROM THE MAIL SURVEY

44 of 63 questionnaires sent were returned (38 in due time and 6 more within one week allowance period) thus yielding a response rate of 70% which can be classified as very good. Within the two business areas, the response rate was: OBM 79% and OCP 60%. Hence, it can be said that one of the greatest disadvantages of mail surveys, a low response rate, did not materialize in this study.

Satisfyingly high proportion of all respondents had joint venture experience (58%). Distribution of the organizational position of respondents was, like expected, very skewed towards higher levels: three quarters of respondents were top managers (15 CEOs, 1 deputy CEO and 16 other top managers). 77% of the respondents had between 10 and 29 years of international business experience. Thus, the objective of getting data from internationally experienced managers was clearly achieved. What is more speaking towards good validity is that the number of answers falling to the 'other, please specify' option in the end of each set of questions was negligibly small. Highest proportion was the last section with 5 of 44 answers falling to 'other' category. However, there many respondents also gave general feedback on the questions and suggestions.

As regards the analysis of results, all supplementary material is collected in Appendix 5. Remainder of this section is arranged in the following way. First, general picture of the factors contributing to informal control is described by analyzing results concerning relative importance of people, companies and cultures as regards informal control. Second, the most important characters and of people and characteristics of companies are examined. Third, the effectiveness of informal control mechanisms is discussed. And fourth, different decision-making processes are examined from the point of view how much they are informally influenced. Therefore, these results shed light on the issues of what can be the

success factors of effective informal control, *with what mechanisms* to exert informal control, and *in where* informal control is exerted.

4.1 Contribution of People, Companies and Culture to Informal Control

Data concerning the contribution of different components to informal control reveal that the role of people is higher than that of companies or cultures at $\alpha=0,01$. This is also clearly demonstrated in Table 11 which shows that none of the respondents assessed the role of people below the neutral. Perhaps the most striking observation is that 82% of responses fell to the two last points on a seven point scale. This result confirms the finding from pilot interviews that people do matter as regards informal control.

Table 11: Contribution of People, Companies and Culture to Informal Control

	People	Companies	Culture
mean	5,96	4,89	4,77
N	44	44	44
no contribution at all 1	0	0	0
2	0	1	3
3	0	4	2
neutral 4	1	11	13
5	7	12	10
6	29	15	16
strong contribution 7	7	1	0
blank	0	0	0

Source: Survey Questionnaire

However, contributions of companies and cultures to the informal control can not be ignored either although it seems that their importance is somewhat smaller than that of people. It has to be noted that as Table 11 depicts, 64% assessed the contribution of companies to above neutral and 59% was of the opinion that the contribution of cultures is above neutral. No differences were found between respondents with joint venture experience and respondents without joint venture experience.

Hence, it seems that all three components are of importance as regards informal control but of those it is people that seem to contribute even stronger than the others. This is in contrast to earlier studies which have reported that resource

dependency and bargaining power of companies have been the main components on which the informal control is dependent on (For example, Yan and Gray 1995). Therefore, the stronger role given to people in the present study gives reason to examine internal validity of results. It can be argued that the role of people can be overemphasized in the present study due to the question's wording. Respondents were asked to assess the contribution of the three components in 'day-to-day international business activities.' Results might have been different if the question would have asked contribution to informal control in general, or in longer term. In particular, it seems reasonable to assume that the role of companies could have shifted to stronger while the role of people could have decreased.

4.2 Important Characters in People

When examining what characters in people enable him to have informal control, there is one character that dominates all the others as can be seen in Table 12. This is person's expertise in business. The mean is higher than any other character's with $\alpha=0,05$. However, in the light of empirical data, it is not only this 'hard' skill that is important. A person should also possess an open mind and interpersonal skills. However, the dominance of business expertise is fairly clear, since at the $\alpha=0,01$ level it is higher than all other characters except for open mind and language skills.

Table 12: Characters Enabling a Person to Have Informal Control

	Expertise in the Business	Open mind	Language skills	Negotiating skills	Cultural sensitivity	Personal Charisma	Local Knowledge	Seniority
mean	6,09	5,67	5,66	5,57	5,55	5,52	5,21	4,50
N	44	43	44	44	44	44	44	44
not important at all 1	0	0	0	0	0	0	0	0
2	0	0	0	0	0	0	0	3
3	0	2	1	1	2	2	2	4
somewhat important 4	1	7	5	6	4	7	11	16
5	8	8	11	11	12	9	12	10
6	21	12	18	19	20	18	14	11
very important 7	14	14	9	7	6	8	5	0
blank	0	1	0	0	0	0	0	0

Source: Survey Questionnaire

Seniority of a person, on the contrary, is not important according to empirical data as regards the ability to have informal control. In fact, its importance is lower than any of the other characters at the $\alpha=0,01$ level. Hence, it can be argued that person's qualities do make a difference. In other words, seniority *per se* is not likely to be an indicator of a person's ability to have informal control, but he has to have developed skills during his tenure.

Thus, it seems reasonable to conclude that people have an important role in contributing to informal control and expertise in the business specially is one of the most important characters in a person. More of the role of people will be said later on together with the control mechanisms, but next chapter reports the findings concerning the important characters of a company.

4.3 Important Characteristics of Companies

When asked about the most important characteristics of companies, results indicated that the four most important are expertise in the business, knowledge of the country of operations, marketing expertise and management expertise as depicted in Table 13. This suggests that these seem to be the most important sources of non-financial resource dependency. At $\alpha=0,05$ level, there is no statistically significant difference between any of them. Thus, it seems that unlike people, companies have a set of important characteristics between which no prioritization can be made.

Table 13: Characteristics Enabling an Organization to Have Informal Control

	Expertise in business	Knowledge of country of operations	Marketing expertise	Management expertise	Technological expertise	Large size
mean	5,91	5,80	5,66	5,64	4,93	3,61
N	44	44	44	44	44	44
not important at all 1	0	0	0	0	0	2
2	0	0	0	0	1	8
3	0	1	1	0	3	10
somewhat important 4	2	3	5	7	10	11
5	12	9	10	12	16	11
6	18	22	20	15	12	2
very important 7	12	9	8	10	2	0
blank	0	0	0	0	0	0

Source: Survey Questionnaire

Data from the mail survey supports the finding made in pilot interviews that the importance of technological expertise is not as great as anticipated according to previous literature. According to data, its importance is lower than any of the four most important characteristics at the $\alpha=0,01$ level. As argued earlier, one reason for this can be that on many occasions a standard technology is used. Further, it was argued that specifically in a joint venture setting technological expertise's role could be even smaller. Results from the mail survey are not able to confirm this hypothesis statistically significantly albeit it seems that this indeed is the case. However, it has to be noted that the role of technology should not be underestimated since in absolute terms it is still judged to be important. 68% of respondents assessed its role to be more than 'somewhat important.'

Results concerning the least important character, organization's large size, can suffer from a threat to internal validity. It is possible that the wording of the question was inadequate and it was badly understood. However, if this is not the case then the result would suggest that the organization need not be large in order to effectively exert informal control. This could be explained by the emphasized role of people as discussed earlier. Hence, it can be argued that as far as informal control is concerned, a small organization can potentially exert as much informal control as a large one. This implies that when partners have a large economic

distance, it is possible that for the smaller partner the most effective way to control is to exert informal control rather than formal control.

4.4 Effectiveness of Control Mechanisms

The present study follows the categorization to formal and informal mechanisms as explained earlier. However, in order to assess the relative effectiveness of informal control mechanisms, the reader has to know how effective are the formal control mechanisms.

4.4.1 Formal Control Mechanisms

Designing the organizational structure, establishing reporting requirements and board meetings seemed to be the most effective formal control mechanisms as can be seen in Table 14. However, the design of processes and manuals was seen to have only a modest effectiveness and managing through hierarchical authority received 60% of responses below neutral. In fact, using hierarchical authority seems to have an exceptionally low level of effectiveness. It is statistically significantly lower than any other formal control mechanism at the $\alpha=0,01$ level.

Table 14: Distribution of Answers to Formal Control Mechanisms

	Designing organizational structure	Establish reporting requirements	Board meetings	Designing processes and manuals	Managing through Hierarchical authority
mean	5,30	5,21	5,02	4,55	3,41
N	44	44	43	44	42
not effective at all 1	0	2	0	0	2
2	0	0	1	0	9
3	2	2	4	8	14
neutral 4	6	6	9	11	6
5	17	11	10	9	9
6	15	19	17	5	2
very effective 7	4	4	2	1	0
blank	0	0	1	0	2

Source: Survey Questionnaire

Thus, the empirical data suggests that shaping the organizational structure and formalizing information flow are effective means of control but relying on one's formal position within the organization is not. This result can be interpreted so

that formalization is seen as an effective framework but within it formal ways of governing are not the most effective ones.

One more rather interesting finding in the formal mechanisms is the suggested lower level of effectiveness of design of processes and manuals or formalization and standardization. Present data indicate that it is statistically significantly lower than the board meetings at $\alpha=0,05$ level and lower than designing the organizational structure and establishing reporting requirements at the $\alpha=0,01$ level. However, according to previous literature formalization and standardization are very common control mechanisms (Martinez and Jarillo 1989: 491).

4.4.2 Informal Mechanisms

The questionnaire contained large amount of questions relating to informal control mechanisms. The informal control mechanisms are divided to two subgroups according to Marschan's (1996) study. The first group consists of mechanisms that have the organization as a whole as their objective, the corporate culture related informal control mechanisms, while the second group is composed of personal relationships control mechanisms.

Table 15 collects answers to the control mechanisms that work through the corporate culture. At a first glance it seems that especially communication of shared objectives and values, creating a corporate culture and providing management training are very effective mechanisms. For example, the first two both have 89% of responses beyond neutral effectiveness. This lends support to that acculturation or, in Bartlett's terminology, creating appropriate organizational context is one of the most effective control mechanisms.

Table 15: Distribution of Answers to Corporate Culture Mechanisms

	Communication of Shared objectives and values	Creating a corporate culture	Providing management training	Providing staff services	Providing management services
mean	5,77	5,50	5,23	4,36	4,34
N	44	44	44	44	44
not effective at all 1	0	0	0	0	1
2	1	1	1	3	3
3	1	0	2	3	5
neutral 4	3	4	3	18	14
5	10	16	19	15	14
6	16	17	18	5	6
very effective 7	13	6	1	0	1
blank	0	0	0	0	0

Source: Survey Questionnaire

Interestingly enough, while providing management training seems to be very effective, providing management services has lower effectiveness at $\alpha=0,01$ which feels somewhat counterintuitive. However, couple of possible alternative explanations for this exist. First, it can be that the internal validity is not good in this question. This seems not to be the most probable alternative, though, as no blank answers exist in either of the variables and none of the respondents have commented these questions in any way. Second, it is possible that not all respondents have experience of management services arrangements. Thus, the reliability of results could be questioned.

Moving on to the personal relationship group of informal control mechanisms the evidence further suggests that informal control mechanisms are very effective. Table 16 offers a full distribution chart of all variables on the personal relationships category. In fact, we find the most effective control mechanism from this category. It is having a trusted man as a CEO for which 86% of responses fell either to very effective or one position lower on a seven point scale. It is more effective control mechanism at the $\alpha=0,05$ level than the next most effective control mechanism of all, communication of shared values and objectives. A further supporting observation to the importance of personal relationships is that

86% of respondents valued that effectiveness of personal relationship between a subsidiary's CEO and headquarters contact person is beyond neutral.

Table 16: Distribution of Answers to Personal Relationship Mechanisms

	Having a trusted man as CEO	Personal relationship between subsidiary's CEO and HQ	Establishing Forums for lateral communication	Transfer of employees	Direct informal communication with insider	Scheduling informal meetings	Influence employees informally	Have 'own' people in the organization
mean	6,23	5,64	5,05	5,05	4,77	4,67	3,75	3,35
N	44	44	44	44	44	43	44	43
not effective at all 1	0	0	0	0	0	0	0	3
2	1	0	0	0	2	0	4	9
3	1	2	3	5	5	4	15	9
neutral 4	0	4	8	9	8	14	15	16
5	4	12	20	13	16	18	8	4
6	17	16	10	13	12	6	2	2
very effective 7	21	10	3	4	1	1	0	0
blank	0	0	0	0	0	1	0	1

Source: Survey Questionnaire

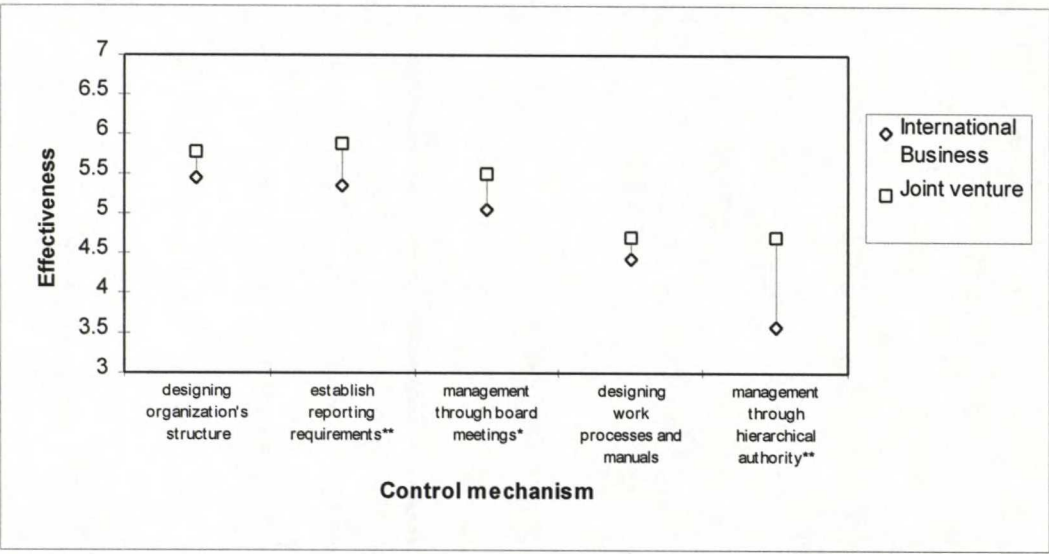
The two variables that show smallest effectiveness on the basis of empirical data are somewhat surprisingly 'influencing employees informally' and "having 'own' people in the organization." According to pilot interviews one of the best methods to ensure smooth business operation and have an influence on decision-making is just the very act of communicating informally with employees and be active in all levels of the organization, both in and out of the workplace. However, it is possible that the wording in this specific question is inappropriate and thus may have lead some respondents to think this as a rather tough technique of relying on one's dare. This is not, as described, the mechanism that was sought after. Therefore, the validity of results concerning this variable can be questioned. However, hypothesizing that the result is valid, this would suggest that respondents do not believe that one could have an effective control by just trying to influence subordinates. The result can be interpreted to imply that 'seeing is believing' i.e., one can not change the point of view from the actual state of affairs by mere talking.

Empirical data suggest further, that the use of 'insiders' is not an effective means of control. This is implied by the distribution of answers to the last variable which refers to the act of having 'own' people in the organization. One seemingly intuitive possible explanation for this is rather similar to the one described in the previous paragraph. It can be argued that this result imply that a transparent and equitable organization seems to be favored instead of an 'old boy's club' type of culture where there is a clear unwritten distinction between insiders and outsiders in an organization. The organizational culture of Outokumpu, which emphasizes honesty, integrity and respect of individual, is a supporting evidence for this argumentation.

4.4.3 Differences of Control Mechanism Effectiveness in Joint Ventures

According to empirical evidence, formal control mechanisms are generally more effective in a joint venture setting than in other international business settings. The questionnaire asked respondents with joint venture experience (N=26) to assess the effectiveness of same control mechanisms also in a joint venture setting. Figure 8 depicts differences between means of corresponding answers to the formal control mechanisms.

Figure 8: Differences in the Effectiveness of Formal Control Mechanisms



*=95% confidence interval

**=99% confidence interval

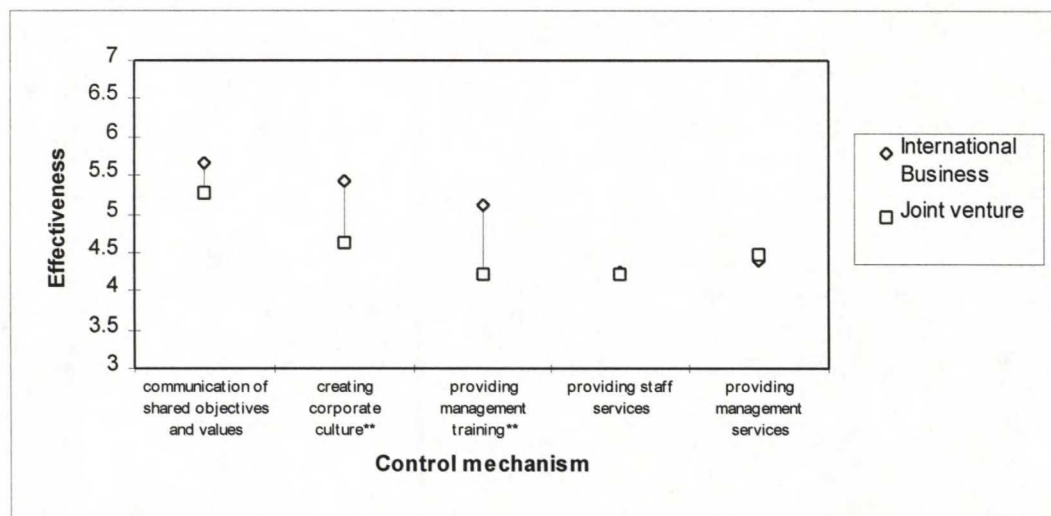
Source: Survey Questionnaire

It is noteworthy to observe that at the $\alpha=0,01$ level establishing reporting requirements and management through hierarchical authority are more effective in joint venture setting than in other contexts. Thus, it seems that in other settings than joint ventures the formal governing style is not as effective. It can be argued that this finding suggests that joint venture control requires more tight grip of the operations in order to ensure good control. Especially the difference in the management through hierarchical authority is interesting. In general, its effectiveness was amongst the lowest of all control mechanisms. However, in joint venture setting it seems to have a mediocre effectiveness.

These results are in contradiction with Pfeffer (1992: 41) who argues that formal authority is not effective in situations where other parties' cooperation is needed in order to get things done. Implicit assumption therefore is that in a joint venture setting the other partners' cooperation is needed. However, the assumption seems to be justified since joint ventures are cooperative modes of operation by definition.

Moreover, when examining the effectiveness of informal control mechanisms the results seem to confirm that in a joint venture setting formal control mechanisms are more effective than informal ones. Following Marschan's (1996) classification, Figure 9 depicts the differences in the effectiveness of corporate culture control mechanisms. As can be seen, creating corporate culture and providing management training are seen as more effective in international business setting than in a joint venture setting. It is rather surprising that these cultural control mechanisms seem to be more ineffective in joint venture than in international business setting. However, one possible explanation could be that according to respondents a joint venture as an organizational form requires more formal and more concrete control. This is supported by Yan (1993: 70) who concludes that the relationship between a partner and an international joint venture is a quasi-hierarchical. Hence, it could be hypothesized that formal control mechanisms would tend to be more effective. However, there is still the above mentioned contradiction with Pfeffer's (1992) findings on the effectiveness of informal mechanisms when cooperation is needed.

Figure 9: Differences in the Effectiveness of Culture Control Mechanisms



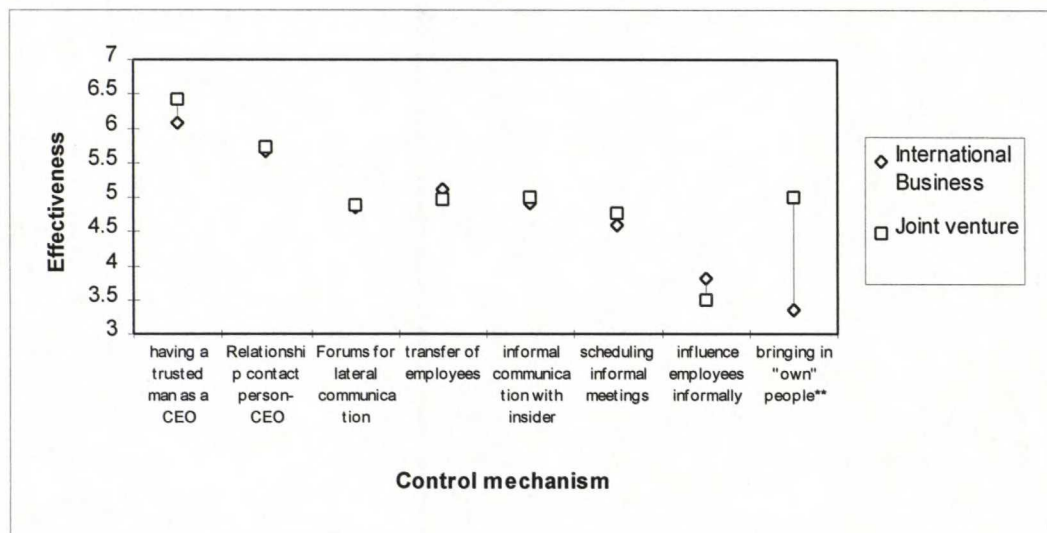
*=95% confidence interval

**=99% confidence interval

Source: Survey Questionnaire

It seems that nearly all personal relationships control mechanisms are equally effective in joint venture setting as in other settings. This is demonstrated in Figure 10 which collects the differences in the effectiveness of these informal control mechanisms. The results show a striking similarity in effectiveness except in two mechanisms, having a trusted man as a CEO and bringing in own people. However, the difference of means to the former mechanism is not statistically significant. Thus, in the light of this empirical data, only such conclusion can be made that it is possible that the role of having a trusted CEO in a joint venture is even stronger than in other settings. Nevertheless, it is the most effective control mechanism in both contexts.

Figure 10: Differences in the Effectiveness of Personal Relationships Control Mechanisms



**=99% confidence interval

Source: Survey Questionnaire

Bringing in own people in the organization is at the $\alpha=0,01$ level more effective in joint venture setting. In fact, it seems that in joint venture setting its effectiveness is at the same level as a group of other informal control mechanisms. It is an interesting observation since according to empirical data in international business settings its effectiveness is amongst the lowest. Hence, it can be argued that in joint ventures the amount of a partner's representatives is an important control mechanism. This is in accordance with data from pilot interviews and Schaan's

(1988) findings that appointment of key people is one of the most effective control mechanisms for a partner that is either in a minority position or otherwise has difficulties to exert control.

4.5 Effective Informal Focus of Control

After analyzing what control mechanisms are effective, the next step is to have a closer look on how much decision-making processes are informally influenced or controlled. Thus, this section examines the informal focus of control and is therefore arranged according to sets of different types of decisions. First are discussed decisions falling mostly, or to a great degree thereof, to the top management. Second, human resource management decisions will be examined. Third are the decisions related to actual operations. Fourth and finally are the decision-making processes in marketing and sales.

4.5.1 Top Management Decision Making

This section examines the following decision-making processes: development of strategies, planning and budgeting processes and R&D projects. Distribution of answers to them is depicted in Table 17.

It seems that all of these decision-making processes are relatively much informally influenced, since the proportion of qualified answers above 'neutral' varies from 76% in the development of strategies to 46% in the budgeting process. Paired-samples t-tests confirm that the means are not different from each other at $\alpha=0,01$ level. However, at the $\alpha=0,05$ level the evidence suggests that development of strategies are more influenced informally than are the budgeting process and R&D projects. Similarly, planning process is at the $\alpha=0,05$ level more influenced than R&D projects. Thus, it seems that specially in the development of strategies is potentially an area where informal control has a greater influence than in the budgeting process, for example. This could be explained at least partly with the fact that the development of strategies typically involves a top-down and bottom-up communication at the same time and more people can thus have an influence in the process.

Table 17: Distribution of Answers to Top Management Decision-Making Processes

	Development of strategies	Planning process	Budgeting process	R&D projects
mean	4,98	4,88	4,44	4,46
N	41	41	41	41
not influenced at all 1	0	0	0	0
2	3	1	3	2
3	3	5	6	5
neutral 4	4	8	13	13
5	16	12	10	14
6	12	14	7	7
heavily influenced 7	3	1	2	0
Blank	3	3	3	3

Source: Survey Questionnaire

As can be seen in Table 17, there are three blank answers in all variables. This may give rise to question the validity of this section since also in other variables that follow, there is a varying number of blank answers. When checking the survey data, one sees that there are three cases where respondents have left blank the whole section of decision-making processes. One possible explanation could be that the length of the questionnaire was too large. However, this seems not to be the case since in the last section of the questionnaire there are not so many blank answers. What is more, the blank answers are not systematic in the sense that the same respondent would have left the whole section blank. This does not support the notion that the length of the questionnaire would be the explanation.

Examining further the case of the three respondents leaving systematically this section blank, a common denominator seems to be found. Besides that all three respondents have joint venture experience, all of them have left blank the corresponding section in the questions specific to joint ventures, or to be more exact, one of them has answered to the section monotonically assessing the informal influence on decision-making in joint ventures varying between 'not influenced at all' and '2', which is the next value on the scale. Therefore, it seems that not all respondents have properly understood the question of informal influence in decision-making processes. This is supported also by a comment of one of them:

'The questions are unclear.' However, other 41 respondents seem to have understood the questions. Nevertheless, this section has the highest number of blank answers and therefore the wording of the question seems not to have been as clear as in all other sections.

4.5.2 Human Resource Decision-Making Processes

In the light of empirical evidence, human resource decisions relating to management are more informally influenced than those relating to employees. This can be seen clearly in Table 18 by examining the mode of answers. In all three earlier, the mode is beyond neutral, whereas in the latter the mode lies in neutral. 65% to 60% of qualified responses to the management promotion, hiring and compensation fall beyond neutral influence while 34% to 41% of corresponding answers concerning employees fall beyond neutral influence.

Table 18: Distribution of Answers to Human Resource Management Decision-Making Processes

	Management promotion	Management hiring	Management compensation	Employee hiring	Employee promotion	Employee compensation
Mean	5,03	4,85	4,53	4,32	4,10	3,90
N	40	39	40	41	41	41
not influenced at all 1	0	1	1	0	2	3
2	1	2	5	2	3	3
3	5	5	1	7	5	6
neutral 4	8	5	9	15	14	15
5	8	11	15	10	13	12
6	14	11	7	7	4	1
heavily influenced 7	4	4	2	0	0	1
Blank	4	5	4	3	3	3

Source: Survey Questionnaire

Management compensation, which has the smallest mean of management human resource decisions, is more informally influenced than the employee compensation at the $\alpha=0,05$ level. Management hiring, on the other hand is higher than both the employee promotion and employee compensation at the $\alpha=0,05$ and $\alpha=0,01$ levels, respectively. What is interesting, though, is the relatively strong informal influence on management promotion. It is higher than all three employees' human resource decision-making processes at the $\alpha=0,01$ level. What

is more, it is at the $\alpha=0,05$ level higher than the management compensation. Thus, it seems that especially the management promotion is an area that is informally influenced.

4.5.3 Operations Decisions

As Table 19 portrays, informal influence on decisions relating to operations is relatively low for all variables. Moreover, no great differences seem to exist within this set of decision-making processes. A describing observation of this group is that in only one variable, production scheduling, is there answers in the 'heavily influenced' class. In all variables more than half of the answers fall between 'not influenced at all' and 'neutral.' On the basis of these observations, it seems safe to conclude that in absolute terms, the operations' decision-making is little informally influenced.

Table 19: Distribution of Answers to Operations Decision-Making Processes

	Machinery supplier selection	Product design	Quality control	Raw material supplier selection	Production scheduling	Production process
Mean	4,30	4,21	4,15	4,15	4,12	3,83
N	40	39	41	41	41	40
not influenced at all 1	0	0	1	1	0	1
2	2	3	3	2	7	6
3	10	7	8	7	6	5
neutral 4	9	11	11	16	11	18
5	12	15	13	10	11	7
6	7	3	5	5	4	3
heavily influenced 7	0	0	0	0	2	0
blank	4	5	3	3	3	4

Source: Survey Questionnaire

The only one statistically significant difference which exists at the $\alpha=0,05$ level between any of the variables is between product design and the production process. Thus, this finding suggests even stronger that the operative decision-making is rather homogenous group as regards informal influence in the process. However, taking into account the industry in question the fact that decision-making in production process seems to be less informally influenced than other operative decisions can be an important observation. In particular, it can be hypothesized that the production process is a high value added activity and

therefore it is formalized to the extent that possibility for informal influence is markedly smaller.

4.5.4 Marketing and Sales

Whereas the decision-making processes related to operations do not seem to be strongly informally influenced, the same can not be said of marketing and sales related decision-making processes. All three variables, marketing channel, sales target, and pricing policy decisions namely, have majority of answers beyond the neutral (85%, 68%, and 65%, respectively) as Table 20 depicts. However, the marketing channel decisions seem to be extremely much informally influenced. It has the highest mean of all decision-making process variables and mode of the answers lie next to the 'heavily influenced' extreme of the scale.

Table 20: Distribution of Answers to Marketing and Sales Decision-Making Processes

	Marketing channel	Sales targets	Pricing policy
Mean	5,28	4,71	4,70
N	40	41	40
not influenced at all 1	0	0	0
2	0	3	4
3	3	2	0
neutral 4	3	8	10
5	15	19	16
6	18	9	10
heavily influenced 7	1	0	0
blank	4	3	4

Source: Survey Questionnaire

However, when comparing the distribution of answers to the next highest variable, management promotion, there seems to be a different pattern. The variance of answers to the management promotion variable is 1,72 which is markedly higher than that to the marketing channel variable which is 0,87. This further supports the notion that the marketing channel decision-making process is very much informally influenced. Distribution of answers demonstrate a strong degree of unanimity amongst the respondents. Only 8% of the respondents assess that the informal influence in this variable is less than neutral.

4.5.5 Differences in Influence on Decisions-Making Processes in Joint Ventures

The questionnaire's design enables comparisons between same respondent's answers to the informal influence on decision-making according to 'international business experience' and 'joint venture experience.' Thus, for the purposes of the present study, it is interesting to analyze whether decision-making processes are being informally influenced to a different degree in these two settings.

In the light of present empirical data it seems that generally there are no substantial differences in the informal influence on decision-making processes between joint venture setting and other international business settings. Especially sales and marketing decision-making processes have very closely correlating answers.

Statistically significant difference exists in only one decision-making process, the management promotion is less informally influenced at a joint venture setting than in international business setting at the $\alpha=0,05$ level. It is recalled that it is the decision-making process that was according to empirical data the most heavily informally influenced of human resource management's decision-making processes. All other differences are relatively small and no clear tendency appears in any of the categories. In this case there can be two reasons for the observed small differences. Firstly, the number of observations for each variable ranges from only 21 to only 23. This indeed is a constraint for getting more reliable results on potential differences. Secondly, it can be that there is no systematic difference in informal influence on decision-making between normal subsidiary and joint venture settings. However, the observed difference in management promotion variable, is an argument to the contrary. With only this few data points the difference is still statistically significant.

4.6 Miscellaneous

As the last part of the questionnaire, respondents were asked to state their agreement or disagreement to seven different propositions. Table 21 offers distribution of answers to these variables. Means of the variables have been left out due to their abstract nature, it is more worthwhile to have a close look to the patterns of the answers.

Table 21: Distribution of Answers to Propositions

	majority of problems due to differences in national culture	more important to focus control than try to control all functions	foreign managers are better in informal control than Finnish	more informal control results when more formalization	personal relationships are the best control mechanism	Board of directors meeting should only be a formality	Formalization is the most effective way to control
mean	3,77	3,02	3,70	3,77	3,10	5,21	4,63
N	43	42	43	43	42	42	43
agree totally 1	3	3	4	2	8	3	0
2	9	15	5	5	8	3	1
3	10	13	10	9	12	3	14
neutral 4	4	4	11	15	3	2	4
5	9	4	8	9	8	5	10
6	6	2	4	3	3	14	9
disagree totally 7	2	1	1	0	0	12	5
blank	1	2	1	1	2	2	1

Source: Survey Questionnaire

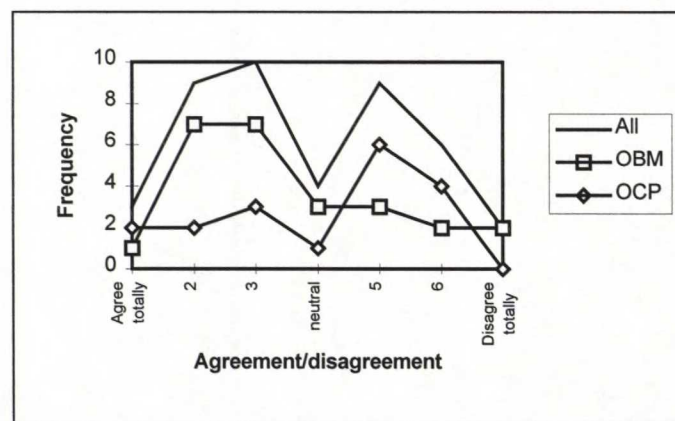
The second variable in Table 21, 'more important to focus control than try to control all functions' offers an interesting insight. Respondents generally seemed to agreed to great extent that control should be focused rather than try to exert control on all functions. Thus, this result gives support to previous findings on the focus dimension of control (Geringer and Hebert 1989: 240, Lecraw 1984: 38).

Earlier results concerning the importance of personal level control seem to be supported. This can be evidenced in the distribution of answers to two variables above: 'personal relationships are the best control mechanism' and 'formalization is the most effective way to control.' 67% of respondents have marked agreement to the former statement while the latter shows 58% of responses to disagreement.

There are three variables that have a bimodal distribution of answers, ‘majority of problems arises due to differences in national cultures’, ‘personal relationships are the best way to have control’, and ‘formalization is the most effective way to control’ namely. However, an explanatory factor for all these three bimodal distributions could not be found. Crosstabulating the results by whether the respondent has joint venture experience does not offer any additional insights. The same applies to the organizational position of the respondent and his international business experience.

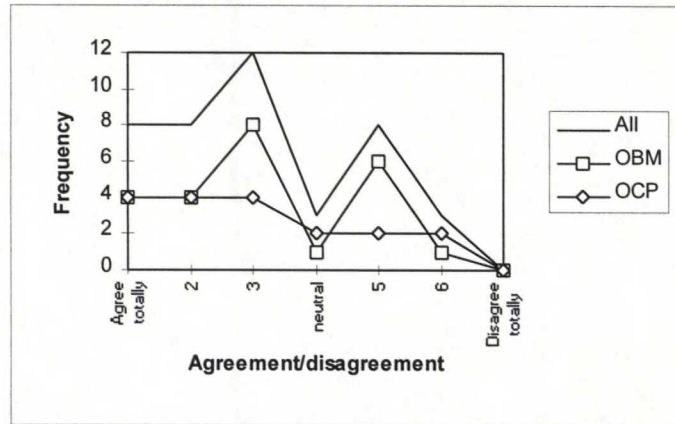
One rather interesting feature appears when crosstabulating by the organizational unit of respondents. Respondents from OBM show a unimodal distribution of answers to the ‘majority of problems arises due to differences in national cultures’ variable and respondents from Outokumpu Copper Products similarly show unimodal distribution for the ‘personal relationships are the best way to have control’ variable. Figure 11 and Figure 12 depict the overall distribution of all respondents on the one hand and at the same time the distribution of the two units.

Figure 11: ‘Majority of Problems Are Due to National Culture’ By Units



Source: Survey Questionnaire

Figure 12: 'Personal Relationships Are the Best Way to Control' By Units



Source: Survey Questionnaire

Thus, it seems that respondents from OBM assess that national culture is a major problem contributing factor while respondents from OCP do not see culture as an important source of problems. Hence, this variable's bimodality seems to be caused by differences in the two business units. The question of the effectiveness of personal relationships as a control mechanism, on the other hand, seems to have a bimodal distribution due to the responses from OBM's representatives. Responses from OCP in turn show here a steadily rising distribution towards agreement on this variable. Unfortunately the data did not allow for a more thorough classification of respondents and thus it remains unexplained why OBM's representatives' answers to the effectiveness of strong personal relationships show a bimodal distribution. A potential explanatory factor could be respondent's nationality, but this could not be identified with a reasonable accuracy.

All in all the informal control mechanisms seemed to be very effective when comparing to formal control mechanisms. Furthermore, management promotion and sales and marketing decision-making seemed to offer good possibilities for informal control. Next chapter offers results from the case study.

5. RESULTS FROM THE CASE STUDY

This Chapter is organized accordingly: first, the partners and the case company are presented. Second, partner control in the case company is examined.

5.1 Outokumpu Group

In 1997 Outokumpu Group's sales were FIM 19,1 billion or approximately USD 3,5 billion. Of this, OBM's share was 26% or approximately USD 0,9 billion. OBM's most important metals are: copper, nickel and zinc, of which it produces approximately 2%, 4%, and 3% of the world's output, respectively. A ten-year summary of Outokumpu Group's selected financial indicators is offered in Appendix 6. Outokumpu Oyj, parent company of the group, is a publicly listed company in the Helsinki Stock Exchange. 40% of the group's shares are held by the Government of Finland (Outokumpu 1998).

Outokumpu's internationalization started very early in the Finnish scale. In 1954 the company sold its first flash smelting license to Furukawa Co, Ltd. in Japan. However, more than twenty years had to pass before the company made its first foreign direct investment (FDI). This was a joint venture with Minera Toachi S.A. in Ecuador where Outokumpu held a 39% minority position. In the beginning of 1980s the group started rapidly to diversificate also abroad (Ala-Härkönen 1997: 248-249, Vikkula 1986: 123).

Outokumpu's experience in Chile started officially in 1989 with an acquisition of 15% share in Lince copper deposit and the acquisition of the case company's copper deposit (Ala-Härkönen 1997: 250). However, Outokumpu had been looking to Chile for some years earlier. For example in 1986 the company intended to start a joint venture mine Cerro Colorado with Canadian company Rio Algom, but the project was terminated due to heavy domestic political pressure in Finland (Urpilainen 1988).

5.2 Placer Dome, Inc.

The other partner of CMZ is Placer Dome, Inc. (PD), which is a Vancouver based internationalized mining company listed on the New York Stock Exchange, on the Toronto Stock Exchange, and six other stock exchanges around the world. Its main product is gold⁴ and it is one of the largest gold mining companies in the world operating 14 mines on four continents. In 1997 Placer Dome's sales were USD 1,2 billion. A ten-year summary of PD's selected financial indicators is presented in Appendix 7 (Placer Dome 1998b: 3, 46, 50).

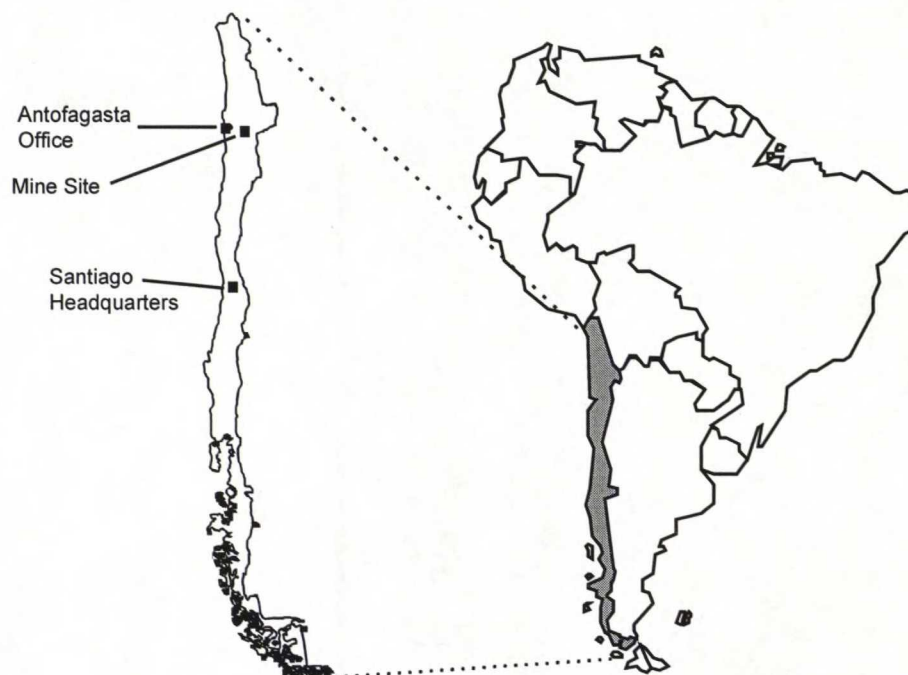
Placer Dome is structured into three regional business units: Placer Dome Latin America (PDLA), Placer Dome North America and Placer Pacific Limited. PDLA's head office is located in Santiago de Chile. One of the corporation's strengths is the in-house project development division that has experience on conducting feasibility studies, design and construction of mines. Another relevant fact of the company is its explicit policy of maintaining strong liquidity and active searching for 'opportunistic reserve acquisitions' (Placer Dome 1998b: 5, 12).

5.3 Compañía Minera Zaldívar

Zaldívar is located in the Atacama desert 175 kilometers South-East of the town of Antofagasta, which in its turn is 1485 kilometers North of the capital, Santiago de Chile. Figure 13 demonstrates the location of Chile in Latin America and locations of CMZ's offices and the mine in Chile.

⁴ PD's mission statement is: "Placer Dome's mission is to achieve its goal by growth in gold through investment in talent. Creating wealth will be achieved through our competitive strengths and investing in the continuous improvement of our talented workforce" (Placer Dome 1998b: 1) and one of its objectives: "Non-precious metal production will not on average exceed one quarter of the gross revenue of the Corporation" (Placer Dome 1998a).

Figure 13: Location of Compañía Minera Zaldívar's Mine and Offices



Outokumpu group bought Zaldívar mining rights on 2 November, 1989 in an open bid from a Chilean company Sociedad Minera La Cascada. Outokumpu was the sole bidder with a tender of USD 25 million (Barrow 1989). In 1990, Outokumpu started geological, metallurgical and underground water explorations. By summer 1992 a feasibility study was completed and previous estimates of the deposit's geological reserves went from estimated 60 million tons averaging 1,6% copper in 1989 to 235 million tons at 0,92% copper in 1992 which represents the mineable reserve. Confirmed total geological resources are 556 million tons at a grade of 0,62% copper. (Barrow 1989, Barrow 1992c).

Later in 1992 Outokumpu announced that it sold a 50% interest in the Zaldívar copper deposit to a Canadian partner, Placer Dome, Inc. (PD) with a sales price of USD 100 million. Furthermore, PD agreed to provide senior loan debt financing up to USD 400 million. Estimated capital cost was around USD 500 million at the time of the sale (Barrow 1992a). A year later, construction go-ahead decision was

made with an estimated USD 600 million capital cost. The two partners decided to set up a separate legal entity, Compañía Minera Zaldívar, to act as the manager of the open-pit mine in which each of them have a 50% interest. The mine life was estimated to at least 17 years yielding 1,9 million tons of copper in total or approximately 125.000 tons annually (Jalanko 1993).

7 June, 1995 marked one turning point in CMZ's history as first copper cathode was produced and in December 1997 CMZ reached its maximum design capacity of 125.000 tons annually (Jalanko 1995, Järvinen 1998). In March, 1998 the company's copper cathodes were officially registered to the London Metals Exchange (La Tercera 1998).

Presently CMZ employs 750 people and operates 7 days a week at full capacity. As shown in Figure 13, CMZ has three sites: The headquarters are located in Santiago de Chile, the Antofagasta office in Antofagasta and the mine site in the Atacama desert. Of these, the Antofagasta office is of minor relevance for this study because it serves mainly as a small administrative and coordinating office for the workers in the mine.

5.3.1 Control Mechanisms

This section analyzes formal and informal control mechanisms used by the partners in the case company. In accordance with Marschan (1996) the order of analysis is first, the organizational structure. Second, reporting and other systems. Three, personal relationships. And four, the corporate culture. Thus, the order of analysis is from formal control mechanisms towards informal control mechanisms.

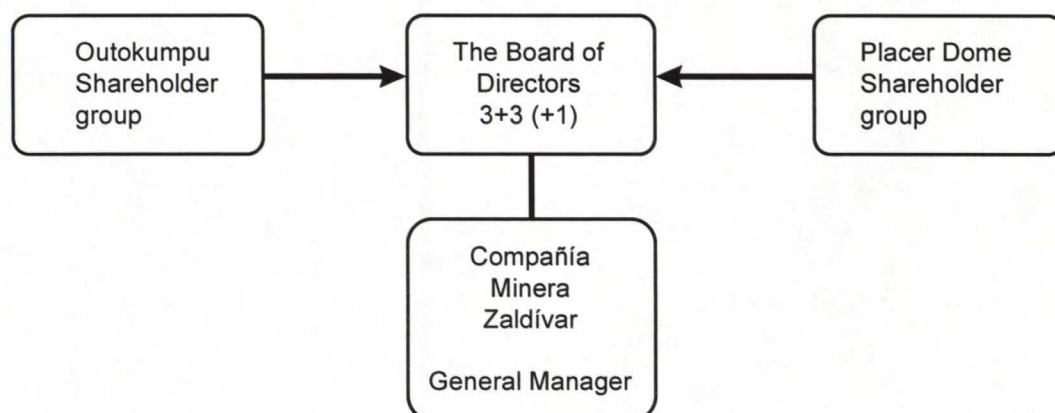
5.3.1.1 Organizational Structure

Compañía Minera Zaldívar operates the Zaldívar copper mine independently from the partners. Hence, the organizational structure from the partners' point of view is relatively straightforward: partners control the joint venture through their representatives in the board of directors, which is the highest decision-making

body of CMZ. However, in order to help latter analysis, this section examines also other relevant institutions of the case company in addition to the board.

The Board is comprised of three members from both partners and one more member from Placer Dome as long as the senior loan is outstanding. Outokumpu has the right to nominate the chairman of the board until the senior loan is repaid. Thereafter the partners will nominate the chairman in turns every two years. The Board has at least 4 meetings a year but more meetings can be called. Figure 14 depicts relationships between the partners, the board and the general manager.

Figure 14: The Governing Structure of Compañía Minera Zaldívar



Source: The Shareholder's Agreement

Hence, this arrangement signifies that both partners' formal extent of control is limited to board-level decisions, such as approving strategies, budgets, plans and capital expenditures over a certain threshold. However, Placer Dome's formal extent of control is greater than that of Outokumpu due to her majority representation in the board. This arrangement is in accordance with Nyssönen's (1989: 34) findings that partners seek to maintain control over strategic decisions.

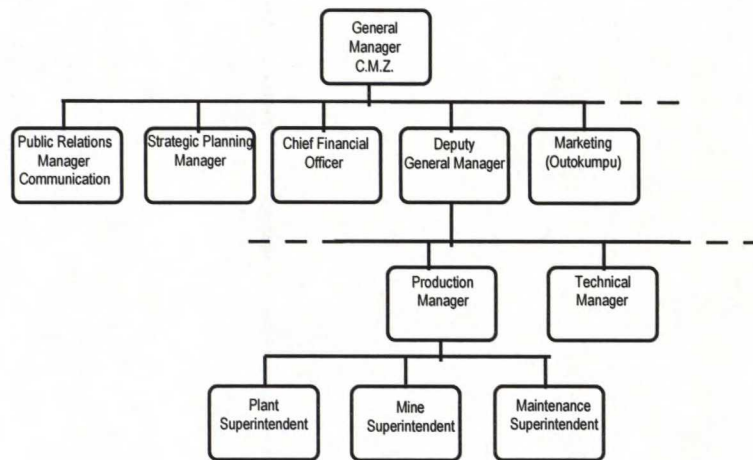
The board can establish committees as it sees appropriate and at the moment there are three committees: the Finance Committee, Technical Committee and Executive Committee. In the decision-making process these committees have an

advisory role to the board. Whether or not these committees have a contribution to the formal control is arguable. To maintain a strict count on the formal control, it can be argued that the committees do not contribute to the formal control because of their advisory role.

The general manager and deputy general manager of the joint venture are elected by the board from time to time. Both of them are full-time employees of CMZ and the general manager appoints remaining managers. The general manager of CMZ is Mr. Tapani Järvinen, originally Outokumpu's employee and the deputy general manager is Mr. Tim Baker, originally Placer Dome's employee. Thus, as argued by Yan and Gray (1995: 104) the nomination of the international joint venture's general manager is one of the most important control mechanisms.

Most relevant part of the organizational structure of CMZ for the present study is depicted in Figure 15. It has to be noted that while major decisions, such as rises in salaries and personnel selection decisions all go through the general manager in Santiago, decentralization was seen as one key to achieve greater efficiency in the company. Thus, the headquarters' role is to take care of general policies, financial matters and development of strategies so as to enable the mine site to function without any disturbances from those issues. This 'division of work' is a result of a planned process which aims to reduce excess bureaucracy in the organization.

Figure 15: The Organization Chart of Compañía Minera Zaldivar



Source: Compañía Minera Zaldivar (1997)

There are many different institutions that cut across this formal fabric of the case company. The management has set up for example the following committees:

- executive committee
- management committee
- environmental committee
- power committee
- compensation committee

Of these, it seems according to interview data that especially the management committee has a significant influence inside the company. Also, the role of other institutions, such as subcommittees, superintendent-level meetings and workshops should not be underestimated since it is many times there that many initiatives come from. Furthermore, they have an important role as preparative bodies. However, they contribute much to the informal dimension of control which is discussed more in detail in the personal relationships section.

5.3.1.2 Reporting, Planning and Budgeting Systems

Generally, formal communication links seem to disseminate information from the case company to both partners equally. For example, both partners receive the same production reports. However, CMZ sends more detailed financial information to Placer Dome than to Outokumpu because the former does line by

line consolidation and the latter does not. The formal communication from the partners to the case company, on the other hand, was seen as small and many of the interviewees, especially at a lower organizational level, considered receiving too little information from the other partner. While this may be totally planned, it seems that a partner could increase its informal control via the described link of increasing knowledge.

The budgeting process is carried out by the management of Compañía Minera Zaldívar and the budget is then submitted to approval for the board of directors. Hence, the actual budget drafting is done inside the case company and the partners do not have a formal control over it. The same applies to planning systems. The planning process is carried out by the case company.

However, there is one aspect in the design of systems and processes in the CMZ that seems to have relevance for the present study. According to representatives from both partners the mine site's systems and processes resemble to a great extent those of a typical Placer Dome's mine organization. This is quite understandable since a Placer Dome affiliated company, Placer Dome Technical Services designed and built the mine. However, there was also input from Outokumpu but still it seems reasonable to assume that Placer Dome had the main role. However, it has to be noted that headquarters in Santiago have designed their own systems which do not resemble those of either of the partners.

5.3.1.3 Personal Relationships

The evidence suggests that in CMZ the informal channels or personal relationships are effective means to have an influence on decision-making. For example, in the words of one interviewee:

In Zaldívar, informal communication has a tremendous effect in what you are able to get through [in the meetings]. I was surprised to see how well it functioned when you first, lobbied your point of view and then second, get the thing through in the meeting

Thus, in accordance with results from the survey and pilot interviews, personal relationships seem to be of great importance in informal control. Remember that especially in a joint venture setting having own people in the organization was seen as a relatively more effective control mechanism than in other settings.

Empirical evidence concerning personal relationships can be divided to two groups, namely the tendency to promote one's original company and the significance of a person-to-person relationships. The first group is rather expected; people tend to have a bias to first communicate with familiar people before contacting someone they do not know that well. Or, they still carry some loyalty towards their former employer, 'their' partner. For example, one manager commented about general habits of expatriates when and if they need to seek more information or help from outside the company:

...of course a Finn communicates more readily to Finland and a Canadian to Canada.

Related to the above is the tendency to think first of the former employer which was explained by one manager:

If we have to search for alternatives outside [of CMZ], I will tend to promote Outokumpu.

A potential explanation for the behavior was offered by one top manager:

...you still have to look good to your home, because in the end you are going to go back there sometime.

Thus, the argument that expatriates would tend to look towards their former employer would be wrongly formulated and it would be more correct to say that they tend to look towards their future employer. However, while it would seem quite logical that people retain some of the loyalty towards 'their' partner, not all empirical data support that notion. For example, one top manager saw that:

Every expat works very much towards the CMZ rather than to the partner. It comes out naturally.

Nevertheless, the majority of the interviewees maintained the opinion that although expatriate managers tend to think from the viewpoint of the joint venture in operational matters, there were still some instances where one could sense the influence of either partner's point of view. The following personal observation by one of the interviewees illustrates this point:

This is solely my own perception, but I think that Placer Dome is giving a lot of instructions. For example, as a last resort, many times different people [outside of the company] are being referred to.

Thus, it seems that expatriate managers in joint ventures can still be affected by the partner company they originate from and that they are, in effect, its representatives at least to some degree, no matter how much they try to be impartial and working for the joint venture.

It [informal decision-making] is not done by Placer versus Outokumpu. Placer exerts itself through the people it has here.

Further, as pointed out in the beginning of this section there is still the other and perhaps even more important aspect of personal relationships. This is the significance of person-to-person relationships and frequent formal and informal communication. A case in point an example given by a top manager who demonstrated how the lack of interest on the part of the other partner's contact person effectively cut down an informal communication link:

From Outokumpu, I communicate face-to-face with only [person X], he is accessible and he knows the site...he is the main man. With [person Y], with whom I should communicate [according to formal structure], I only use cc-mail because [I sense that] he is not interested...[I communicate] with [person X] because he shows interest in the company.

As also another interviewee indicated that he perceives a partner's lack of interest in the joint venture as a sign of arrogance, it seems that this is an issue of major concern. Even more alarming is the following quotation from a top manager that suggests a lost opportunity which seems to be caused by insufficient communication at personal level:

From Outokumpu we have nothing, I don't know at what they are good at. [I do] not [have] much contact from Outokumpu, [I] don't know what they have. We know what Placer has because we stay in touch with them.

On the other side of the coin, one manager showed the positive impact of personal relationships created earlier:

I use Outokumpu Research Center as much as Placer's [technical services]. I use Outokumpu because they came to site two years ago.

Thus, the empirical evidence seems to point out that personal relationships are one of the most important ways of increasing informal control. It is important to note that the evidence suggests that people contact the party/parties they know the best. Thus, it would be of a great importance to create and enhance the personal relationships between key people. Thus, in the personal relationships control mechanism people play a significant role. Next section examines results concerning the quantity of people and their position within the organization.

In the light of empirical evidence, it seems that if a partner desires strong informal control, she should ensure that there are an adequate amount of her representatives in middle management and higher positions. In the case of CMZ, superintendent level equals roughly middle management or higher middle management level (Please refer to the organization chart of CMZ which was depicted in Figure 15 on page 74). For example, one of the testimonies stating this was:

Outokumpu's obstacle [in bringing about informal control] is that it doesn't have any superintendent level manager in the mine. The presence of Outokumpu lacks almost totally.

If the lack of presence of one partner's representatives is one cause to insufficient personal communication, then this leads to one important observation. A partner could increase its informal control by increasing the number of its expatriate managers in middle management and higher levels. Or, alternatively, a partner is in danger to lose its informal controlling power if there is not enough its 'own' people in an adequate organizational level. Supporting this argumentation is the following opinion of a manager:

...all important positions are filled by Placer's people, or then by Chilean that have become their 'trustees'...if we are not able to get any manager-level Finns to the mine, we'd better stay out of there altogether...number of expatriate managers is the most important factor [instead of their personal characters].

Hence, these results lend support to Schaan (1988: 9) by suggesting that the nomination of key personnel is an effective control mechanism for a partner. Thus, it seems that if a partner wants to have informal control of the joint venture, it should ensure that enough of its representatives are in middle management and upwards. However, it is a different matter whether a partner wants the joint venture to be independent or to have a close steering relationship. In the above citation there was also one important observation, the interviewee noted that perhaps it would be wiser to let the operating of the mine to the other partner altogether. The opinion supports the notion of Yan (1993: 78) and many other authors which argue that a dominant-control management is likely to be successful in the case of a joint venture formed between two developed country partners due to their similar interests. A further suggestion of a similar kind was made by another manager who concluded that the relationship between the partners is 'healthy' because the other partner has been given its latitude to take care of operating the mine. As regards the comment on Chilean employees becoming trustees, the evidence is somewhat contradictory, this can be seen for example in the following comment by one top manager:

Our Chilean employees are not biased to either of the partners...naturally when you have more [nationality] managers, it is possible that it [the nationality's point of view] becomes more transcending.

However, according to the above interviewee, there is still the possibility that the asymmetric number of managers from partners can have an influence. Indeed, there was no interviewee that had an opposing opinion on this matter. Following quotation is an illustrative example:

Links [of CMZ] are closer to Placer Dome. Two reasons for this are: firstly, the number of people, and secondly the geographical location of people.

As a summary, the importance of people as a channel of informal control can be seen as very strong in the case of joint ventures. The empirical data from both the mail survey and the case interviews support this notion. Therefore, when planning a joint venture operation, human resources questions seem to be ever more important.

5.3.1.4 Corporate Culture

Empirical evidence from the case study supports the findings from mail survey as regards the effectiveness of communication of shared objectives and values and creating a corporate culture as informal control mechanisms. However, these mechanisms seem not to be exerted by the partners but by the joint venture itself. Indeed, the CMZ's mission is a case in point of the communication of shared objectives and values:

We are committed to being outstanding amongst world class mining companies.

We achieve this through our highly professional workforce, our ability to constantly innovate and improve, our focus on providing returns for our owners and our high standards for copper quality.

We are a caring company and for us the safety of our workers and the responsible stewardship of our environment are of utmost importance.

We value our families, our community and our customers, and take professional pride in being a company that fosters the best in individuals and strives for excellence.

(Compañía Minera Zaldívar 1998)

Another very visible informal control mechanism used in CMZ is the establishment of a corporate culture. An important objective of the case company's management is the decentralization of decision-making which differentiates the company from its competitors in Chile. This finding is in accordance with Czinkota et al. (1994: 633) who report that the institution of self-control is one of the most important instruments of cultural control. This observation can be interpreted as a support for findings of Beamish and Inkpen (1995: 27) which suggest that as the international joint venture grow there is the

possibility that it starts to develop a distinct identity and culture from either of the partners which potentially adds to control problems.

However, it seems that the establishment of a corporate culture is very much dependent on the people involved. For example, one manager commented:

[person A] disseminates a lot of CMZ information and image whereas [person B] presents more Placer Dome image.

Thus, although the case company itself is pushing strongly for its own identity and corporate culture, there still can be seen features of the partners' cultures. However, the interviewees agreed that the company has gained a strong own identity and many said that they are first and foremost 'CMZ people' as opposed to being 'Placer people' or 'Outokumpu people.' As one key mechanism for this was seen the total quality management (TQM) program⁵, for which the CMZ has received good results in benchmarking analysis made by third party consultants

There are also cultural control mechanisms used in the case company where the partners have played some role. For example, CMZ has offered a number of training programs to personnel and management and in some of them one or the other partner has been for example source of information of the course because they have used it in their own organization. Other courses are offered directly by the partners. Table 22 lists most significant programs together with a brief description of their contents, and the party or parties that have been the source of information of the course or program.

⁵ The total quality management program will be discussed shortly together with other programs.

Table 22: Courses and Programs Used in Compañía Minera Zaldívar

Item	Description, comments	Source of information or recommendation
Policies and job descriptions	Full manuals covering a variety of aspects.	Input from both partners
Total Quality Management	Initiated in 1995. Already good results in benchmarking	Neither of the partners have used TQM.
You+	Communication skills and teamwork course by a third party company.	Placer Dome has used this course earlier
Breakthrough	leadership skills and teamwork course by a third party company	Placer Dome has used this course earlier
Core Competence Development	Individual competencies and efficiency development	Outokumpu's own in-house course
Finance for Non-Financial People (forthcoming)	To increase management's financial skills	Placer Dome has used this course earlier

Source: Interviews

As can be inferred, it seems that Placer Dome is more active in providing training programs. Extant literature agrees to a great extent with the notion that providing training programs or active dissemination of information of them is one informal control mechanism. For example, Schaan (1988: 9) concludes that this can be one way for a partner to increase the likelihood that specific processes and tasks in the international joint venture will be performed in accordance with expectations. Rather similarly, Yan and Gray (1995: 105) argue that for example adoption of similar systems or management policies is a sign of higher control exerted by that partner. However, in the case company this may or may not be true, since it is the CMZ's management that makes all decisions of the courses they take. Nevertheless, interviewees generally agreed that Placer Dome is more active in pushing for these kinds of programs and that they were not aware of whether Outokumpu could provide similar ones. One comment made by a top manager clarifies also some of the reasons:

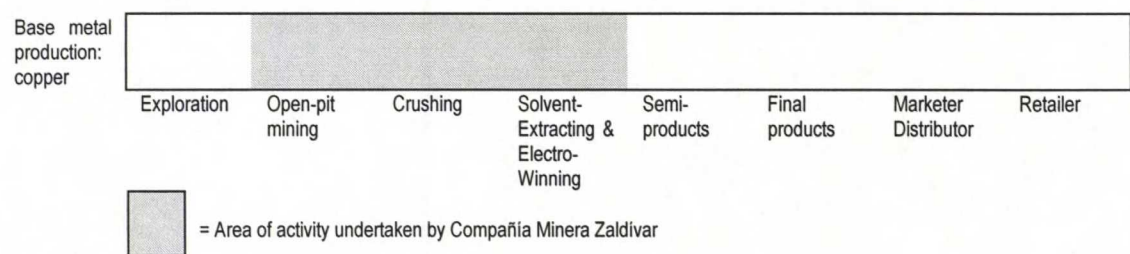
The reason [for majority of programs coming from Placer Dome's side] is that Placer Dome has more experience and more to offer. Furthermore, the geographical location favors Placer. Nevertheless, all initiations are always made by CMZ. However, Placer Dome has always been more active [as a partner], this is due to the partners' differing visions of CMZ's role.

Thus, this comment actually gives three potential explanations. First, Placer Dome seems to have more knowledge of management training. Second, they have more contact due to the geographical proximity of the company's Latin American headquarters. And third, they promote more actively than Outokumpu programs they use. Hence, it is apparent that communication of the partner companies' resources can be one control mechanism. It can be considered also as an informal control mechanism since as described above in the training programs section, limited knowledge can in some situations effectively prevent people from having alternatives to choose from one partner's offering. Thus, the other partner is in a better position to have an influence on the training used if they have a large repertoire of offering and they make them easily available, for example.

5.3.2 Focus of Control

Compañía Minera Zaldívar engages in copper mining and processing and markets copper cathodes to companies that make copper semi-products. Figure 16 depicts the activities of CMZ and a detailed flowchart of CMZ's production process is offered in Appendix 8.

Figure 16: The Supply Chain of Compañía Minera Zaldívar



Source: Adapted from Ala-Härkönen (1997: 89)

The shareholders' agreement stipulates that Outokumpu has exclusive global marketing and sales agent agreement for the joint venture's products for which it will receive a commission from CMZ. The partners agreed that Placer Dome will do an updated feasibility study and a PD affiliated company will be the project manager of the mine construction phase. No specific agreement exists concerning

any other division of work or control by the partners. Hence the Outokumpu's formal focus of control is in marketing while Placer Dome does not have a formal focus of control.

According to interviewees the agency agreement does not provide Outokumpu with more informal control. Following comment is a typical example:

The agency agreement can give knowledge, but not control

However, according to the terminology in the present study an increased knowledge of the operations is control. Hence, it seems reasonable to interpret that Outokumpu indeed has the formal focus of control in the marketing function.

It can be argued that Placer Dome can informally control more of the mining operations than Outokumpu. This is based on the notion that a partner can, at least to some extent, exert informal control through its representatives in the joint venture. Some evidence is shown by this comment of a top manager:

...Chilean workers see Outokumpu people more as professionals of the copper and Placer people as professionals of mine management.

Hence, it seems that especially the mining operations are in the hands of Placer Dome's expatriates. However, it is a different question as to how much is the partner able or willing to control the operations. Nevertheless, at the moment Outokumpu does not have any middle-manager expatriate in the mine while Placer Dome has more than ten expatriate managers in middle and higher management positions in the mine. According to Schaan (1988) this is one control mechanism and contributes to the informal control in the area. Giving support to the above argumentation are the convergent opinions by respondents from both partners that there is a division of work where Placer Dome operates the mine and Outokumpu markets the product. For example, a middle manager commented about the division of work between the partners:

...Outokumpu has given Placer its latitude [to take care of mine management]...Placer Dome operates, Outokumpu markets...generally the relationship is healthy: both have their responsibilities.

In similar manner, but perhaps more explanatory comment was given by another top manager:

In mine, Placer Dome has more influence [than Outokumpu] due to personal contacts [of Placer Dome's expatriate-managers working in CMZ] and the fact that Placer Dome is more operator [type of company] than Outokumpu...Placer Dome's people are more available...Outokumpu has its strongest influence on geology, sales...[they contribute with their] general knowledge of copper industry.

One explanation for the 'availability of people' is that Placer Dome's Latin American Regional Headquarters (PDLA) are located in Santiago de Chile and thus are markedly more accessible than Outokumpu's headquarters in Finland. Supporting this notion is the following comment given by a Finnish interviewee:

Even though we hire a third party, it is Placer Dome Latin America that takes care of controlling [the project]. The reason for this is Placer's organizing skills and the fact that Outokumpu lacks resources [here in Chile].

Therefore, it seems in the light of empirical data that the geographical proximity of Placer Dome's regional headquarters gives an advantage to Placer Dome as regards informal control. It has to be noted that also Outokumpu has contributed resources, for example the group constructed a multimillion dollar flotation plant. However, one more point was raised by a top manager who argued that this availability of resources is mainly due to the different attitudes of the partners towards the role of the case company. While Outokumpu sees CMZ as an individual, independent operation, Placer Dome keeps a more close and active steering relationship.

Thus, following the above argumentation, it seems reasonable to assess that Placer Dome has more informal control over the mining operations than Outokumpu. However, the mere fact that there are more expatriates from Placer Dome does not automatically mean that Placer would exert informal control. On the contrary,

CMZ has an own identity as described earlier and expatriates from both partners tend to develop deeper loyalty towards CMZ rather than the partner they come from.

5.3.3 Extent of Control

It is reminded that the extent of control refers to the partners' degree of decision-making power over the joint venture's decisions on pricing policy, production design, production scheduling, production process, quality control, sales targets, cost budgeting and capital expenditures. Thus, the critical object of examination to assess this aspect is to find out who actually makes the decisions, is it the joint venture's general manager alone, either of the partners alone, the partners together or the partners and the joint venture's general manager together.

As far as regards the formal extent of control, it is the partners that through the board take decisions over certain issues that are listed in the joint venture agreement. More specifically, the board approves budgets and larger capital investments. Rest of the decisions are made by the management of CMZ. Therefore, this can be interpreted as a sign of an independent international joint venture as regards the extent of partner control.

However, it seems that in the important decision-making process of the Board there is a possibility to exert informal control. For example, following testimonies from both a Finnish and a Canadian manager illustrate this point:

You have to sell your idea there. You can not have a control on these [production] issues working only through the Board.

Conflicts don't seem to get resolved in Board meetings. It has to be solved beforehand...actual work is done behind the scenes.

This is in accordance with evidence from the pilot interviews. Thus, it seems that the Board as a decision-making body is rather formal one but an informal element exists as regards its decision-making process. One prominent forum for exerting informal control are the board committees which also provide an opportunity for

informal communication and information gathering. As one middle manager noted:

The Board's Technical Committee usually visits the mine couple of days before the Board's meeting. Placer's guys will also check how other things are when they come.

Therefore, it is argued that partners can extend their informal extent of control through active participation and use of the committees. Empirical evidence from the mail survey suggests that the greatest informal influence is likely to exist in marketing and sales function. However, in this case no empirical data exist that support clear informal control, by either of the partners, that would give reason to assess the informal extent of control to markedly differ from that of formal extent of control. Therefore, it can be argued that this form of control contributes mainly as an informal information channel to the partners. Hence, it seems that the case company is an independent joint venture as regards both formal and informal extent of control.

6. CONCLUSIONS

This ending chapter of the study firstly gathers the research findings on which conclusions are based. Secondly, it reports managerial implications of the results. And thirdly, suggestions for future research are offered.

6.1 Summary and Major Findings

This study examined informal control in an international joint venture. Main objectives of the study were examine effective informal control mechanisms and *describe* how companies exert informal control.

The study embarked due to an identified need for more academic knowledge of informal control on the one hand and due to an identified need for pragmatic information of informal control on the other hand. Analysis of extant literature revealed that the importance of informal control has been identified, yet left to a great degree without extensive empirical studies.

Informal control was studied based on a multidimensional concept of control presented by Geringer and Hebert (1989). According to this concept, control is composed of three interrelated components: 1) *the control mechanisms* or the acts that the control is exercised with, 2) *the focus of control* or the function where the control appears, and 3) *the extent of control* or the degree of control exercised which can range from no control at all to total control over the joint venture's activities. In order to examine informal control, the study developed and tested a further elaboration for this framework. It was hypothesized that all three dimensions of control can be divided further to have two distinct components: the formal and informal. Indeed, this distinction seemed to help the analysis and added value to the study by enabling a better understanding of the difference between the formal and informal control.

The paper employed two separate research strategies to test the framework. First, a mail survey was posted to 63 internationally experienced managers of Outokumpu

with the objective of analyzing the effectiveness of informal control mechanisms and the effectiveness of informal control in different decision-making processes. Second, an in-depth case study was conducted of Compañía Minera Zaldívar, a 50-50 international joint venture between Outokumpu of Finland and Placer Dome of Canada, in order to examine how informal control is exerted by joint venture partners.

Major finding of the study is the relative amount of each partners' representatives which was constantly one of the most decisive factor for informal control according to data from pilot interviews and the case study. More specifically, it was argued that partners are able to exert informal control in a joint venture through their representatives. However, there are forces acting against the possibility to control informally via one's own expatriates. The most significant of these was the organizational identity of the joint venture itself. Nonetheless, empirical evidence suggested that expatriate managers develop a network which they can contact should a problem or a question arise through personal, face-to-face communication. Further, it seemed that contact persons in partner organizations stand in fear of losing a valuable informal information link if they do not demonstrate a genuine interest in the joint venture and its people.

The case data revealed another factor that seemed to contribute strongly to informal control. This was the steering relationship adopted by the partners. Placer Dome had a closer steering relationship to the case joint venture while Outokumpu maintained more distant steering relationship. The data suggested that this led to decreased knowledge of the distant partner's resources and increased knowledge of the closer partner's resources. Therefore, joint venture's employees on many occasions perceived the closer partner to possess more resources than the more distant partner.

Empirical evidence revealed that many informal control mechanisms are even more effective than formal control mechanisms. According to data from survey,

the single most important control mechanism was to have a trusted man as a CEO. Amongst the most effective control mechanisms were also the establishment of informal communication links and premises, creation and nurturing of personal relationships, and the creation of strong corporate culture and values, and managerial training. Thus, the present study lends a strong support for Marschan's (1996) findings of inter-unit communication in multinationals.

In the light of empirical data, it seemed that not all business functions and decision-making processes can be equally informally influenced. This implied that the informal focus of control can be more effective in particular functions. According to results informal control was not very effective in operative decision-making processes nor in top-management level decision-making processes, apart from strategic planning. However, there is evidence that informal control can play relatively strong role in marketing, sales and some human resource management decision-making processes.

As regards the informal extent of control, the data suggested that it is brought about by people that act as representatives of partners. Thus, it was argued that partners can have an influence in the operative decision-making of a joint venture when it has enough loyal expatriates in the organization. However, this seemed to be a rather difficult task since a joint venture is a separate entity and thus the people employed by it will tend to develop loyalty towards the joint venture itself. Whether a partner is able to influence through its people in the joint venture thus remains somewhat unclear. Nevertheless, there is evidence that expatriates working in a joint venture retain some loyalty towards the partner they come from. Should this happen, then it seems reasonable to conclude that the more a partner has expatriate managers working in the joint venture the informal extent of control that partner can have.

However, one important insight related to the loyalty was revealed in the case study. When the joint venture has developed own strong corporate culture, people

employed by it tend to develop more loyalty towards the joint venture itself. Hence the outcome of this is that the relative loyalty towards the joint venture strengthens at the expense of loyalty towards the partner the person is originally from. Therefore, in Figure 18 under the heading informal control mechanisms there are the shared values and corporate culture variables. It has to be noted that in previous literature the role of creating appropriate corporate context was seen as a mechanism available to partners to increase their informal control in a joint venture. However, empirical data of the present study revealed the possibility for the joint venture to diminish the informal control exerted by either of the partners by establishing own strong corporate identity. Nevertheless, this can also be seen as a possibility for one partner to reduce the informal control of the other partner: by establishing own corporate culture and identity for the joint venture, it has the possibility to reduce the influence of the other partner. However, by doing this the first partner also faces the situation that its own informal control will also tend to weaken. Another thing is then, if a partner is able to bring in to the joint venture its very own corporate culture. According to the study's findings, this would be very effective informal control mechanism. This conclusion supports findings of Bartlett (1986) who argues that creating a corporate context, or context oriented control mechanisms are effective in today's complex business environment.

As concluding remarks for the study the role of people as representatives of partners seems to be of paramount importance as regards informal control. Relative amounts of partners' representatives and their organizational position in the joint venture is a strong indicator of the amount of informal control perceived by employees. However, with the creation of own strong corporate culture for a joint venture, the effectiveness of partners' informal control can be reduced. These conclusions have several implications to international business management.

6.2 Managerial Implications

In order to exert strong informal control a partner has to maintain a close steering relationship with the joint venture. A distant relationship implies that the joint

venture's employees have fewer communication links to and from the partner and thus their knowledge of the partner and its resources tends to be limited. The steering relationship can be close in many dimensions. First, the corporate decision-making concerning the joint venture can be decentralized to a geographically or psychologically close place. Second, needed expert and other services such as managerial training that the joint venture itself does not have can be located strategically so that they are readily available and their use is simple and convenient for the joint venture. Third, auxiliary agreements such as marketing agreement, technology licensing, management agreement, project financing and so forth can be used to effect both formal and informal control.

Due to the dynamic nature of the relationship it seems that having a steady 50-50 control power in a 50-50 joint venture can only be found in textbooks. In real life the relationship between the partner develops and the one that has the initial, even small advantage can become the dominant partner. However, this need not be an undesired state of affairs from the point of view of any of the partners since it can effectively be used to overcome one of the greatest disadvantages of joint ventures: slow decision-making. Previous literature supports this notion, especially in joint ventures between two companies from developed countries where the performance of a joint venture is found to be better under a dominant partner arrangement due to the converging strategic objectives of the partners.

Nonetheless, the more distant partner can sometimes feel alienated from day-to-day operations of the joint venture and hence feel that the other partner is having too strong control. Potential measures the first partner can take in this kind of situation to increase its control include active dissemination of information about its competencies, course offerings, visits to the joint venture, invitations to the partner's seminars and meetings, and overall creation of informal communication links and establishing face-to-face personal relationships between key people in the joint venture and the partner organization. In accordance with Marschan (1996), the informal communication links should be created also in lower levels of

the organizations since it seems that generally in higher levels people have more information of both partners but that at lower levels knowledge tends to be rather limited.

Overall, human resource management should be one of the main points in the joint venture forming and operating agenda. The partner that is able to have more its own expatriates in the international joint venture has the most powerful informal control mechanism that a partner can have in an independent joint venture. One key to achieve this informal control in a joint venture that has autonomy as regards its staffing is to have a large enough human resource pool that has the required professional, cross-cultural and interpersonal skills to perform well in the demanding environment of an international joint venture. However, the number of expatriates should ideally decrease as the joint venture's operations reach the target level. The important implication this brings for an informal control is that the number of each partners' expatriates should decrease in parallel fashion.

6.3 Suggestions for Future Research

In recent years, the issue of control in joint ventures has received considerable attention. However, it seems that while the dimension of control mechanisms is exceptionally widely studied the other two dimensions, focus and extent of control namely, have received less academic interest. The case is even more accentuated as regards informal control. No studies on informal control's dimensions were located and few papers concentrate on control in international joint ventures (An exception to this is for example Glaister 1995) therefore the present paper helped in contributing some empirical evidence in the area.

Research on informal control offers many challenging paths to be taken in order to shed more light of the issue. The phenomena is rich and complex, thus it can be studied via many different disciplines. Examples of these alternative points of view include behavioral analysis of expatriate managers and partners' managers as

decision-makers, cultural differences' influence on how people exert informal control or perceive informal control, and informal control as a social phenomena.

It seems that examining the informal control as a process, particularly in a joint venture setting, would yield interesting insights to its dynamics. In particular, it would be valuable to know what implications strong informal control from one partner has, if any, to the balance of controlling power. Are there any repercussions of exerting strong informal control, are organizations able to learn to control informally, or is it totally tied to some fundamental variables like the bargaining power, resource dependency or the quantity and quality of partners' managers.

Empirical data of the present study support findings of Bartlett and Ghoshal (1990) of control mechanisms in less-hierarchical organizations and suggest that a decentralized organization which is close to the operation is more likely to have strong informal control. One interesting path for future research thus would be to replicate the present study and seek for confirmation or disconfirmation for this phenomena. In particular, it would be of value to analyze the link between informal control and centralization-decentralization issue.

Since the present study provided explanatory data on mere one case company, for the future research cross-industry analysis is recommended. Similarly, further studies can concentrate more on the differences of informal control appearing in a joint venture where one of the partners is from developed country and the other from a developing country. Further insights to the informal control could also be gained by analyzing what is the effect of the country of operations.

As regards methodology, it seems that the case method was appropriate to study the phenomena. However, further studies could conduct multiple-case designs and thus make cross-case comparisons and pattern-seeking as explained earlier. The mail survey proved appropriate for its objectives, but it seems that the informal

control as a concept is not so well understood that would enable conducting more explanatory mail surveys. However, informed surveys could be feasible for this purpose.

Thus, as a conclusion the informal control is a fascinating subject of research due to its richness as a phenomena. Furthermore, gaining a more thorough understanding of it is valuable information for both the business and the academic communities. Especially science would benefit from a robust theory of informal control since such a theory could be applied to a multitude of fields: mergers and acquisitions, organizational behavior and business administration to name but few.

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Mäkelä, Tuomo. Managing Director and CEO. Minera Outokumpu Chile S.A. Santiago. 10 March, 1998.

Tulumello, Michael. Chief Financial Officer. Compañía Minera Zaldivar. Santiago. 13 March, 1998.

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APPENDIX 1: POSITIVE AND NEGATIVE CONTROL MECHANISMS

Table A23: Positive and Negative Control Mechanisms

Positive	Negative
<ul style="list-style-type: none"> • Ability to make specific decisions* • Ability to design:* <ol style="list-style-type: none"> 1) Planning process 2) Appropriation requests 3) Policies and procedures • Ability to set objectives for JV general manager* • Contracts:* <ul style="list-style-type: none"> -management -technology transfer -marketing -supplier • Participation in planning or budgeting process*/+ • Parent organization structure* • Reporting structure* • Staffing+ • Training programs+ • Staff services+ • Bonus of JV general manager tied to parent results+ • Ability to decide on future promotion of JV general manager (and other JV managers)* • Feedback; strategy/plan budgets, appropriation requests* • JV general manager's participation in parent's worldwide meetings+ • Relations with JV general manager; phone calls, meetings, visits+ • Staffing parent with someone with experience with JV+ • MNC's level in target country [Mexico]+ • Informal meetings with other parent+ 	<ul style="list-style-type: none"> • Board* • Executive committee* • Approval required for:* <ol style="list-style-type: none"> 1) specific decisions 2) Plans, budgets 3) Appropriation requests 4) Nomination of JV general manager • Screening/No objection of parent before ideas or projects are discussed with other parent*

* = Can be grouped to formal control mechanisms

+ = Can be grouped to informal control mechanisms

Source: J.L. Schaan (1983: 249, ref. Geringer and Hebert 1989)

APPENDIX 2: MAIL SURVEY

INFORMAL CONTROL MECHANISMS

General instructions:

Thank you for taking your time to answer these questions. It takes about 15 minutes to complete the form.

The questions refer to your personal experience of international business. Please try to fill in all questions even if you feel that your knowledge of a specific item is limited. In those cases, please answer to the best of your knowledge. If necessary, write your assumptions on the side of the question or on the back of the paper.

All responses will remain strictly confidential and no specific answers can be identified from the research report.

Please return the questionnaire by 20 March, 1998

Thank you for your assistance.

1. What is your organizational position:

- ☐ CEO/managing director
☐ Deputy CEO/deputy managing director
☐ Line manager
☐ manager
☐ Other, please specify: _____

2. Please indicate your personal experience of international business:

0-9 years 10-19 years 20-29 years 30-39 years 40+ years

3. How much do the following components contribute to informal control in day-to-day international business activities?

	No contribution at all		Neutral			Strong contribution	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Personal characteristics of the people involved	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Company-specific characteristics (e.g. technical excellence)	(1)	(2)	(3)	(4)	(5)	(6)	(7)
National culture specific characteristics	(1)	(2)	(3)	(4)	(5)	(6)	(7)

4. As regards a person's ability to have an informal influence on international business activities, how important are the following characters?

	Not important at all			Somewhat important		Very important	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Expertise in the business	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Seniority	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Local knowledge	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Personal charisma	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Language skills	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Negotiating skills	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Cultural sensitivity	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Open mind	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Other, please specify	(1)	(2)	(3)	(4)	(5)	(6)	(7)

5. As regards the ability of an organization to have an informal influence on international business activities, how important are the following?

	Not important at all			Somewhat important		Very important	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Knowledge of the country of operations	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Expertise in the business in question	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Organisation's large size	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Technological expertise	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Marketing expertise	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Management expertise	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Other, please specify	(1)	(2)	(3)	(4)	(5)	(6)	(7)

6. Please assess how effective the following control mechanisms are in international business operations:

	Not effective at all		Neutral			Very effective	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Designing organizational structure	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Establishing regular reporting requirements	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Influencing employees through various informal means (e.g. sponsoring their hobbies)	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Creating a corporate culture	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Managing through hierarchical authority	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Direct informal communication with an insider	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Scheduling informal meetings	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Pursuing objectives in the board of directors meetings	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Bringing in as many "own" people as possible	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Providing management training	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Providing staff services (finance, human resources, etc.)	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Providing managerial services (e.g. a management contract)	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Having a trusted man as a CEO	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Designing work processes and manuals	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Transfer of employees from headquarters to subsidiary and back	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Providing forums for lateral communication (e.g. teams and committees)	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Communication of known and shared strategic objectives and values	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Building personal relationship between a subsidiary's CEO and headquarters' contact person	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Other, please specify	(1)	(2)	(3)	(4)	(5)	(6)	(7)

7. According to your international business experience, how much are the following decision-making processes informally influenced?

	Not in- fluenced at all		Neutral			Heavily influen- ced	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Development of strategies	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Development of budgets	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Development of plans	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Raw material supplier selection	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Machinery supplier selection	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Product design	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Production scheduling	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Manufacturing process	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Quality control	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Research & Development projects	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Marketing channel decisions	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Pricing policy	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Sales targets	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Management hiring	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Management compensation	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Management promotion	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Employee hiring	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Employee compensation	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Employee promotion	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Other, please specify	(1)	(2)	(3)	(4)	(5)	(6)	(7)

If you have no experience of joint ventures, please skip questions 8 and 9 and go directly to question 10.

8. Please assess how effective the following control mechanisms are in a joint venture operation:

	Not effective at all		Neutral			Very effective	
Designing organizational structure	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Establishing regular reporting requirements	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Influencing employees through various informal means (e.g. sponsoring their hobbies)	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Creating a corporate culture	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Managing through hierarchical authority	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Direct informal communication with an insider in the joint venture	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Scheduling informal meetings	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Pursuing objectives in the board of directors meetings	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Bringing in as many "own" people as possible	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Providing management training	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Providing staff services (finance, human resources, etc.)	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Providing managerial services (e.g. a management contract)	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Having a trusted man as the joint venture's CEO	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Designing work processes and manuals	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Transfer of employees from headquarters to the joint venture and back	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Providing forums for lateral communication (e.g. teams and committees)	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Communication of known and shared strategic objectives and values	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Building personal relationship between the joint venture's CEO and headquarters' contact person	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Other, please specify	(1)	(2)	(3)	(4)	(5)	(6)	(7)

9. According to your experience of joint ventures, how much are the following decision-making processes informally influenced?

	Not in- fluenced at all		Neutral			Heavily influen- ced	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Development of strategies	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Development of budgets	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Development of plans	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Raw material supplier selection	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Machinery supplier selection	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Product design	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Production scheduling	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Manufacturing process	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Quality control	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Research & Development projects	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Marketing channel decisions	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Pricing policy	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Sales targets	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Management hiring	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Management compensation	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Management promotion	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Employee hiring	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Employee compensation	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Employee promotion	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Other, please specify	(1)	(2)	(3)	(4)	(5)	(6)	(7)

10. Please indicate your agreement or disagreement over the statements in the following list:

	Agree totally		Neutral			Disagree totally	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Majority of problems in the management of a foreign subsidiary arise from differences in national cultures	(1)	(2)	(3)	(4)	(5)	(6)	(7)
It is more important to gain strong control over some functions of a firm rather than trying to control all functions	(1)	(2)	(3)	(4)	(5)	(6)	(7)
In general, foreign managers tend to be better than Finnish managers in exercising informal control	(1)	(2)	(3)	(4)	(5)	(6)	(7)
The more formalized decision-making processes are, the more informal control tends to appear	(1)	(2)	(3)	(4)	(5)	(6)	(7)
The best way to control is to build strong personal relationships in all levels of the organization	(1)	(2)	(3)	(4)	(5)	(6)	(7)
The board of directors meetings should only be a formality	(1)	(2)	(3)	(4)	(5)	(6)	(7)
The most effective way of controlling a business is formalization (job descriptions, manuals, etc.)	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Other, please specify	(1)	(2)	(3)	(4)	(5)	(6)	(7)

**THANK YOU FOR YOUR VALUABLE TIME,
YOUR CONTRIBUTION TO THE STUDY IS GREATLY APPRECIATED!**
If you wish to receive a summary of the main findings of the study, please write:
"copy of the results requested" on the back of the return envelope, and print either:

- your name and address if you wish to receive a paper copy; or
- your email address if you wish a text document delivered to your email

Please return this questionnaire by 20 March, 1998 using the enclosed envelope to:

**Tero Sarkkinen
c/o Kirsti Laine
OUTOKUMPU BASE METALS OY
PO Box 143
FIN-02201 ESPOO
FINLAND**

APPENDIX 3: LETTER OF RECOMMENDATION

3 March, 1998

SURVEY QUESTIONNAIRE OF INFORMAL CONTROL MECHANISMS

Dear Colleague

Mr Tero Sarkkinen, Master of Science Candidate (Econ. And BA) from the Helsinki School of Economics and Business Administration, is doing his Master's Thesis on informal control mechanisms for Outokumpu Base Metals Oy. As a subscriber, I would like to explain the value of this work for the Outokumpu group.

The study deals with informal control mechanisms in organizations. Its purpose is to explain why and when informal control takes place and what the various informal control mechanisms are. Furthermore, the study examines whether the informal control can be influenced, and if so, by what means. Hence, this study adds value to Outokumpu as the results are directly applicable to almost all business operations.

Now that the research has proceeded to the data collection stage, it is important to approach a group of internationally experienced managers of Outokumpu. Therefore, we have selected highly qualified individuals from the units of Base Metals, Copper Products and Technology to whom this survey questionnaire will be sent.

The study and your input to the research are of great importance. Therefore, I would greatly appreciate it if you could complete the attached questionnaire and return it in the enclosed envelope by March 20, 1998.

If you have any questions, do not hesitate to contact me.

OUTOKUMPU BASE METALS OY

Jukka Järvinen
Senior Vice President - Finance and Administration

APPENDIX 4: PILOT CASE INTERVIEW PROTOCOL

PILOT CASE INTERVIEW PROTOCOL

TORONTO 13 JANUARY, 1998

What is the name of the Joint Venture (JV)?

What is your position in the management of the JV?

Did you participate in the JV negotiations?

Do you participate in the management of the JV? At what level?

Do you oversee the JV operations in Outokumpu?

What are the names and nationalities of the partners and what is the amount of equity contributed to the JV?

Partner	Nationality	Capital at founding	Capital now
---------	-------------	---------------------	-------------

Together:

Are there any other financial resources contributed to the JV by the partners (such as senior loans)?

What is the primary product of the JV?

Copper	Nickel	Zinc
--------	--------	------

What are the primary products of the other partners?

When did the JV negotiations begin?

Year _____ month _____.

When was the JV contract signed?

Year _____ month _____.

How long is the JV contract?

Original: _____ years Renewal: _____ years

How did the partners first contact each other?

Direct contact	Via government
Via Broker _____	Other _____

What was the relationship between the partners prior to the JV?

No relationship	Buyer-seller relationship	Marketing agreement
Technology-licensing agreement	R & D Partnership	Other _____

Please indicate the composition of the JV's operating committee:

Partner	At founding	Now
---------	-------------	-----

Together:

How is the operating committee's president nominated?

How long is the term of the operating committee's president?

What is the position of the operating committee's president in his mother company (for each of the parents)

Does the right to nominate operating committee's president rotate between the partners?

If yes, how long is each term?

Please indicate the composition of the JV's operator company:

Partner	At founding	Now
---------	-------------	-----

Together:

How is the operator company's General Manager nominated?

How long is the term of the operator company's General Manager?

What is the position of the operator company's General Manager in his mother company (for each of the parents)

Does the right to nominate the operator company's General Manager rotate between the partners?

If yes, how long is each term?

How many expatriates are there in the JV (indicate separately the operating committee and the operator company)?

Partner

At founding

Now

Together:

What are the most important strategic objectives for Outokumpu and the partners what were hoped to achieve with the JV?

Please select in the following list the four most important objectives. Then, indicate their relative importance by numbering them from 1 (the most important) to 4 (the fourth most important).

a) Outokumpu

	At founding	Now
Penetrate the market of the country of operations		
Earn a profit in the country of operations		
Develop a base for raw material sourcing		
Learning how to do business in the country of operations		
Build credibility and reputation		
Pursue business growth		
Establish presence in the country of operations or in the area		
Other (specify)		

b) The partner

	At founding	Now
Penetrate the market of the country of operations		
Earn a profit in the country of operations		
Develop a base for raw material sourcing		
Learning how to do business in the country of operations		
Build credibility and reputation		
Pursue business growth		
Establish presence in the country of operations or in the area		
Other (specify)		

Have the objectives or their priority changed during the life of the JV? Why?

Please assess the strategic importance of this JV for Outokumpu and for the other partners

- How sensitive for Outokumpu is the technology or know-how used in the JV?
- How are the JV's operations integrated to the partner's operations? Is there a regular sales transactions between the JV and Outokumpu? How about between the JV and the partner?
- If the JV for some reason ceased to exist, would it be a more serious problem for Outokumpu than for the partner? Why?

How did the negotiation process go?

- Who initiated the negotiations?
- How many other companies did Outokumpu consider as possible partners for this JV?
- How many other companies did the partner consider as possible partners for this JV?
- Did the partners have previous experience of the country of operations?
- Were there other potential partners with whom the JV could have been formed with? Did the other partners consider other companies than Outokumpu?
- Did Outokumpu reach the desired results in the negotiations as regards the governing and reporting structure?
- Did Outokumpu reach other objectives in the negotiations?

Did the government of the country of operations play a role during the JV negotiations? Does it play a role now?

- E.g. subsidies, FDI restrictions

Has the Finnish government played a role at any stage?

Please describe in general the JV, and related, agreements:

- Decision-making process:
 - Operating Committee (OC): How frequent does the OC meet? On what issues is unanimous decision needed?
 - Operator company: On what issues is the approval of the OC needed?
 - Typically, how is a decision reached; by consensus or by majority vote?
- Do the partners control equally all functions of the JV? (does one or the other control more some specific function, such as production, marketing, human resources)
- How would you assess the amount of power or authority the different partners have in managing the day-to-day activities of the JV?
- Are there technology transfer, marketing, or other agreements?

How would you assess the relative amounts of different non-financial contributions the partners have made to the JV? (such as managerial/other expertise, technology, know-how, operations management, local expertise, etc.)

	<i>Outokumpu (%)</i>	<i>Partner (%)</i>
Managerial resources		
Marketing/distribution channels		
Who built the mine		
Production technology used		
Local expertise (geological conditions, relations to authorities, and to business community, etc.)		
Managerial training		
Technical staff training		
Staff services to the JV		
Other, please specify:		

- When was the production know-how transferred to the JV initially developed?
- To what extent does the organization structure, decision making processes and management styles of the JV resemble to those of Outokumpu rather than those of the partner?
- Did the partner have international business experience before? Did it have JV experience?
- Have the partners or the JV's management learned from each other during the JV's operation?

How would you describe the general working relationship and "personal chemistry" between the partners?

- Is the working relationship between the partners approximately the same as in other Outokumpu JVs?
- Have you noticed any cultural differences or misunderstandings between the parents or the JV managers? Has there been other difficulties during the JV's operation?
 - Has there been any conflicts due to these differences? What kind of conflicts? How were they resolved?
- Which partner's managers are, in general, more experienced or of higher organizational level?
 - In the Operating Committee
 - In the Operator Company
- In managing day-to-day operations of the JV, who are the most influential persons?
- Has there been any conflicts of authority during the JV's operation? Has any of the partners complained their authority being sidestepped? On what instances? How the difficulties were resolved?
- To what extent, in your opinion, do you see the JV managers work for their mother company rather than for the JV (Case Outokumpu and partners)?

How would you characterize the sensitivity of JV's and partners' managers to intercultural issues?

- When comparing the general intercultural skills of the managers, are there any differences between the partners? Why do you think these differences exist?
- How would you characterize the partners' corporate cultures when comparing to each other? Is there a difference between them?
- Do the partners communicate their objectives and priorities openly?
- Does the president of the JV's Operating Committee or the General Manager of the operator company participate in parent's worldwide meetings?
- Do the partners' contact persons have experience in the JV?

From your point of view, do you see any forthcoming major changes in the JV's operations or ownership?

Thank you for this interview. Do you have any relevant issues in mind we have neglected or have touched too little during this interview?

APPEDIX 5: MAIL SURVEY DATA ANALYSIS

Table A24: Comparison of Means: Contribution of Components to Informal Control

	People	Company
Company	1,0682 ** 1,590; 0,547 t=5,52	
Culture	1,1818** 1,717; 0,647 t=5,95	0,1136

*=95% confidence interval, **=99% confidence interval

Source: Survey Questionnaire

Table A25: Comparison of Means: Person's Characters

	Expertise in the Business	Open mind	Language skills	Negotiating skills	Cultural sensitivity	Personal Charisma	Local Knowledge
Open mind	0,3953* 0,003; 0,788 t=2,03						
Language skills	0,4318* 0,053; 0,811 t=2,30	0,0233					
Negotiating skills	0,5227** 0,080; 0,965 t=3,18	0,0698	0,0909				
Cultural sensitivity	0,5455** 0,970; 0,121 t=-3,46	0,1163	0,1136	0,0227			
Personal Charisma	0,5682** 1,090; 0,047 t=-2,94	0,1395	0,1364	0,0455	0,0227		
Local Knowledge	0,8864** 0,429; 1,343 t=5,23	0,4884* 0,926; 0,051 t=2,25	0,4545* 0,892; 0,017 t=2,10	0,3636	0,3409	0,3182	
Seniority	1,5909** 0,976; 2,206 t=6,97	1,1860** 0,455; 1,917 t=4,38	1,1591** 0,572; 1,747 t=5,32	1,0682** 0,465; 1,671 t=4,77	1,0455** 0,478; 1,613 t=4,96	1,0227** 0,413; 1,633 t=4,52	0,7045** 0,100; 1,309 t=3,14

*=95% confidence interval, **=99% confidence interval

Source: Survey Questionnaire

Table A26: Comparison of Means: Organization's Characters

	Expertise in business	Knowledge of country	Marketing expertise	Management expertise	Technological expertise
Knowledge of country	0,1136				
Marketing expertise	0,2500	0,1364			
Management expertise	0,2727	0,1591	0,0227		
Technological expertise	0,9773** 0,470; 1,484 t=5,19	0,8636** 0,387; 1,340 t=4,88	0,7273** 0,304; 1,151 t=4,63	0,7045** 0,189; 1,220 t=3,69	
Large size	2,2955** 1,666; 2,925 t=9,83	2,1818** 1,567; 2,797 t=9,56	2,0455** 1,458; 2,633 t=9,38	2,0227** 1,419; 2,627 t=9,03	1,3182** 1,961; 0,676 t=5,53

*=95% confidence interval, **=99% confidence interval

Source: Survey Questionnaire

Table A27: Comparison of Means: Effectiveness of Formal Control Mechanisms

	Designing organizational structure	Establish reporting requirements	Board meetings	Design processes and manuals
Establish reporting requirements	0,0909			
Board meetings	0,2558	0,1860		
Design processes and manuals	0,7500** 1,058; 0,442 t=4,9	0,6591** 1,266; 0,052 t=2,93	0,4884* 0,036; 0,941 t=2,18	
Hierarchical authority	1,8810** 2,364; 1,398 t=7,87	1,8333** 2,385; 1,282 t=8,98	1,5854** 0,945; 2,226 t=6,7	1,1429** 1,722; 0,564 t=5,33

*=95% confidence interval, **=99% confidence interval

Source: Survey Questionnaire

Table A28: Comparison of Means: Effectiveness of Corporate Culture

	Communication of Shared objectives and values	Creating a corporate culture	Providing management training	Providing staff services
Creating a corporate culture	0,2727			
Providing management training	0,5455** 1,045; 0,046 t=2,94	0,2727		
Providing staff services	1,4091** 1,979; 0,839 t=6,66	1,1364** 0,652; 1,621 t=6,32	0,8636** 1,307; 0,420 t=5,25	
Providing management services	1,4318** 1,946; 0,918 t=7,51	1,1591** 0,680; 1,639 t=6,51	0,8864** 1,368; 0,405 t=4,96	0,0227

*=95% confidence interval, **=99% confidence interval

Source: Survey Questionnaire

Table A29: Comparison of Means: Personal Relationships

	Having a trusted man as CEO	Personal relationship between subsidiary's CEO and HQ	Establishing Forums for lateral communication	Transfer of employees	Direct informal communication with insider	Scheduling informal meetings	Influence employees informally
Personal relationship between subsidiary's CEO and HQ	0,5909** 0,078; 1,104 t=3,10						
Establishing Forums for lateral communication	1,1818** 1,778; 0,586 t=5,34	0,5909** 1,147; 0,035 t=2,86					
Transfer of employees	1,1818** 0,567; 1,797 t=5,18	0,5909* 0,094; 1,087 t=2,40	0,0000				
Direct informal communication with insider	1,4545** 2,136; 0,773 t=5,75	0,8636** 1,468; 0,259 t=3,85	0,2727	0,2727			
Scheduling informal meetings	1,5581** 2,169; 0,947 t=6,88	0,9767** 1,447; 0,506 t=5,60	0,3721* 0,701; 0,043 t=2,28	0,3721	0,0930		
Influence employees informally	2,4773** 3,048; 1,906 t=11,69	1,8864** 2,442; 1,331 t=9,15	1,2955** 1,788; 0,803 t=7,09	1,2955** 1,960; 0,631 t=5,25	1,0227** 0,458; 1,587 t=4,88	0,9535** 1,453; 0,454 t=5,15	
Have "own" people in the organization	2,9070** 2,267; 3,547 t=12,25	2,2791** 2,947; 1,611 t=9,21	1,6977** 1,041; 2,355 t=6,97	1,6744** 2,288; 1,061 t=7,36	1,4419** 0,774; 2,110 t=5,83	1,3333** 0,691; 1,976 t=5,61	0,4186

* = 95% confidence interval, ** = 99% confidence interval

Source: Survey Questionnaire

Table A30: Comparison of Means: Differences of Effectiveness of Control Mechanisms in Joint Venture Setting

Variable	Designing organizational structure	Establish reporting requirements	Board meetings	Design processes and manuals	Managing through Hierarchical authority				
Difference of means (JV-IB)	0,3077	0,5385** (0,095; 0,982) t=3,38	0,4583* (0,107; 0,810) t=2,70	0,2692	1,1250** (0,464; 1,786) t=4,78				
Variable	Providing management training	Scheduling informal meetings	Providing staff services	Providing management services					
Difference of means	-0,9200** (-1,641; -0,199) t=-3,57	0,1600	-0,0400	0,0800					
Variable	Having a trusted man as CEO	Communication of Shared objectives and values	Personal relationship between subsidiary's CEO and HQ	Creating a corporate culture	Establishing Forums for lateral communication	Transfer of employees	Direct informal communication with insider	Influence employees informally	Have "own" people in the organization
Difference of means	0,3462	-0,3846	0,0769	-0,8077** (-1,581; -0,034) t=-2,91	0,0385	-0,1538	0,0769	-0,3077	1,6538* (0,914; 2,394) t=4,60

* = 95% confidence interval, ** = 99% confidence interval

Source: Survey Questionnaire

Table A31: Comparison of Means: Top Management Decision-Making Process

	Development of strategies	Planning process	Budgeting process
Planning process	0,0976		
Budgeting process	0,5366* 0,943; 0,131 t=2,67	0,4390 t=2,42	
R&D projects	0,5122* 0,981; 0,043 t=2,21	0,4146	0,0244

*=95% confidence interval, **=99% confidence interval

Source: Survey Questionnaire

Table A32: Comparison of Means: Human Resource Management Decision-Making Process

	Management promotion	Management hiring	Management compensation	Employee hiring	Employee promotion
Management hiring	0,1282				
Management compensation	0,5000* 0,876; 0,124 t=2,69	0,3846			
Employee hiring	0,7250** 1,417; 0,033 t=2,84	0,4872	0,2250		
Employee promotion	0,8500** 1,467; 0,233 t=3,73	0,6923* 1,259; 0,125 t=2,47	0,3500	0,2195	
Employee compensation	1,0500** 1,782; 0,318 t=3,89	0,8205** 1,604; 0,037 t=2,84	0,5500* 1,041; 0,059 t=2,27	0,4146* 0,814; 0,016 t=2,10	0,1951

*=95% confidence interval, **=99% confidence interval

Source: Survey Questionnaire

Table A33: Comparison of Means: Operations Decision-Making Process

	Machinery supplier selection	Product design	Quality control	Raw material supplier selection	Production scheduling
Product design	0,0526				
Quality control	0,1250	0,0256			
Raw material supplier selection	0,1500	0,1026	0,0000		
Production scheduling	0,1250	0,1538	0,0244	0,0244	
Production process	0,4359	0,4359* 0,017; 0,855 t=2,10	0,3500	0,3000	0,2750

*=95% confidence interval, **=99% confidence interval

Source: Survey Questionnaire

Table A34: Comparison of Means: Marketing and Sales Decision-Making Processes

	Marketing channel	Sales targets
Sales targets	0,5750** 0,082; 1,068 t=3,16	
Pricing policy	0,5750** 0,143; 1,007 t=3,60	0,0000

*=95% confidence interval, **=99% confidence interval

Source: Survey Questionnaire

Table A35: Comparison of Means: Differences of Effectiveness of Informal Influence in Joint Venture Setting

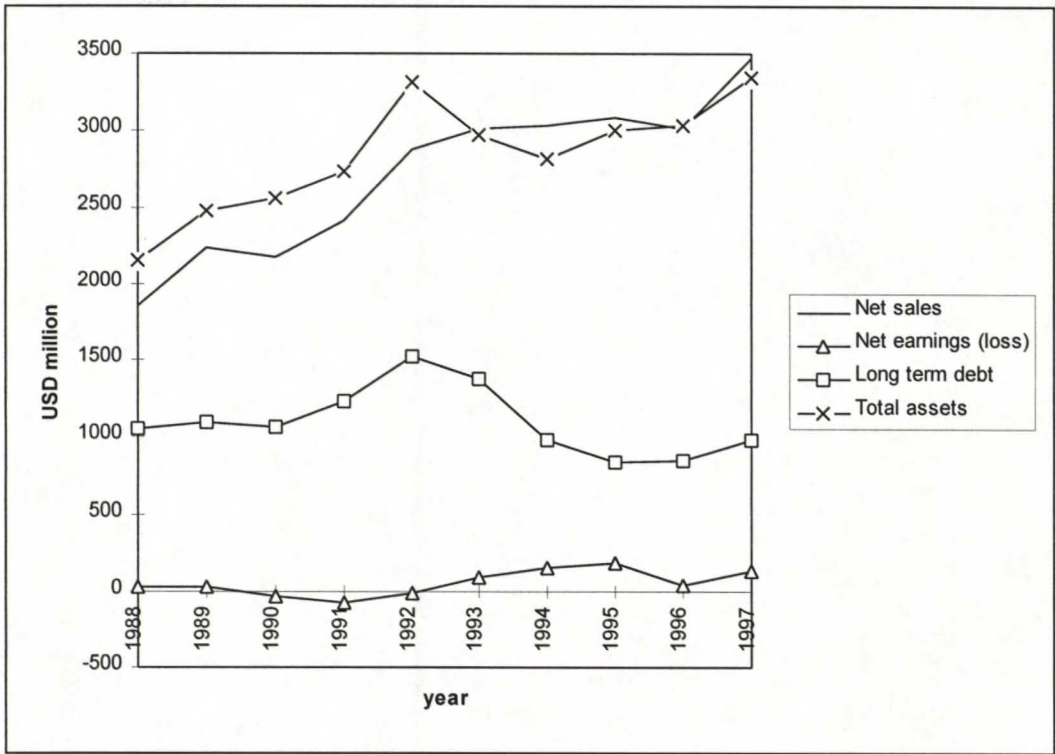
Variable	Strategy	Budgeting	Planning	R&D projects		
Difference of means	-0,1364 (n=22)	0,2273 (n=22)	-0,2273 (n=22)	-0,2381 (n=21)		
Variable	Management promotion	Management hiring	Management compensation	Employee hiring	Employee compensation	Employee promotion
Difference of means	-0,5909* (n=22)	-0,0909 (n=22)	-0,2727 (n=22)	-0,2174 (n=23)	0,1304 (n=23)	0,2727 (n=22)
Variable	Machinery supplier selection	Product design	Quality control	Raw material supplier selection	Production scheduling	Production process
Difference of means	0,0000 (n=23)	-0,1500 (n=20)	0,0455 (n=22)	-0,0435 (n=23)	0,1739 (n=23)	-0,1905 (n=21)
Variable	Marketing channel	Sales targets	Pricing policy			
Difference of means	0,0455 (n=22)	-0,0476 (n=21)	0,0000 (n=21)			

*=95% confidence interval, **=99% confidence interval

Source: Survey Questionnaire

APPENDIX 6: FINANCIAL INDICATORS OF OUTOKUMPU GROUP

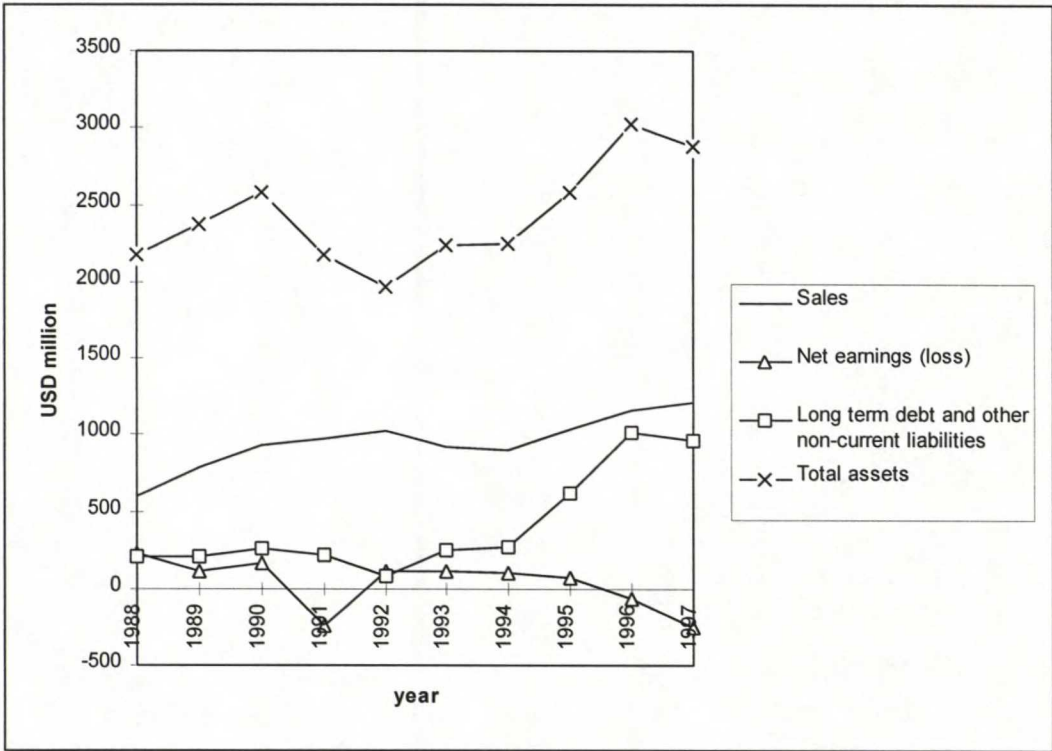
Figure A17: Ten-Year Summary of Outokumpu Group's Selected Financial Indicators



Source: Outokumpu Annual Reports 1988-1997

APPENDIX 7: FINANCIAL INDICATORS OF PLACER DOME, INC.

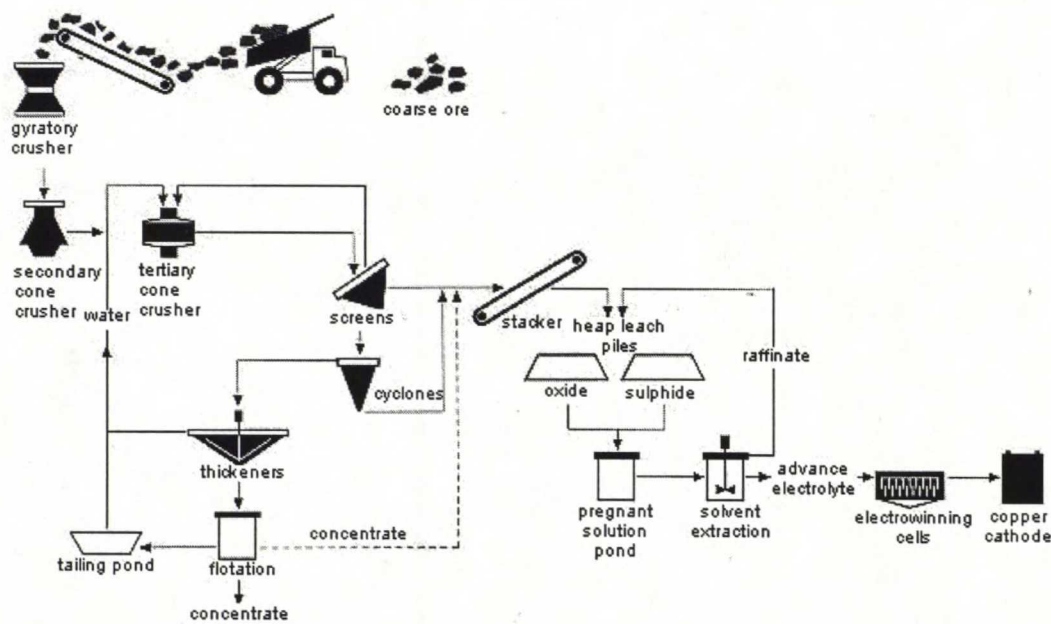
Figure A18: Ten-Year Summary of Placer Dome, Inc's Selected Financial Indicators



Source: Placer Dome (1998b)

**APPENDIX 8: PRODUCTION PROCESS OF COMPAÑÍA MINERA
ZALDÍVAR**

Figure A19: Production Process of Compañía Minera Zaldivar



Source: Mining Technology (1998)